PUBLICATIONS

OF THE

AMERICAN ECONOMIC ASSOCIATION

THIRD SERIES. ISSUED QUARTERLY.
VOL. VI, NO. 1. PRICE, $4.00 PER YEAR.

PAPERS AND PROCEEDINGS

OF THE

SEVENTEENTH ANNUAL MEETING

PART I

CHICAGO, ILL.

DECEMBER 28–30

FEBRUARY, 1905

PUBLISHED FOR THE
AMERICAN ECONOMIC ASSOCIATION
BY THE MACMILLAN COMPANY
NEW YORK
LONDON: SWAN SONNENSCHEIN & CO.

PRICE IN PAPER, ONE DOLLAR.

AMERICAN ECONOMIC ASSOCIATION
Organized at Saratoga, September 9, 1885.

EX-PRESIDENTS

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Massachusetts Institute of Technology.

*Charles F. Dunbar,
Harvard University.

John B. Clark,
Columbia University.

Henry C. Adams,
University of Michigan.

Arthur T. Hadley,
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Richard T. Ely,
University of Wisconsin.

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OFFICERS FOR THE YEAR 1905

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Executive Committee.

Ex-Officio Members—

The President

The Secretary-Treasurer

The Chairman Publ. Com.

Elected Members—

Winthrop M. Daniels,
Princeton University.

Henry B. Gardner,
Brown University.

Balthasar H. Meyer,
University of Wisconsin.

Inquiries and other communications regarding membership, subscriptions, meetings, and the general affairs of the Association should be addressed to the *Secretary of the American Economic Association*, Cornell University, Ithaca, N. Y.
Orders for publications should be addressed to *The Macmillan Co.*, 66 Fifth Avenue, New York.

* Deceased.

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CONTENTS

AMERICAN ECONOMIC ASSOCIATION.

The American Economic Association is an organization composed of persons interested in the study of political economy or the economic phases of political and social questions. As may be seen by examining the list of members and subscribers printed in this volume, not only are all universities and most prominent colleges in the country represented in the Association by their teachers of political economy and related subjects, but even a larger number of members come from those interested as business men, journalists, lawyers or politicians in the theories of political economy or, more often, in their applications to social life. There are further nearly two hundred subscribers, including the most important libraries of this country. The Association has besides a growing representation in foreign countries.

The first two meetings of the Economic Association in 1885 and 1887, and the meetings of 1897, 1898, 1900, 1901, 1902, 1903, and 1904, were at the same place as those of the American Historical Association. Joint sessions and less formal gatherings of the members of the two Associations were thus held. In 1905 the meeting will be held in Baltimore and Washington. The annual meetings give opportunity for social intercourse; they contribute to create and cement acquaintanceship and friendship between teachers of economics and cognate subjects in different institutions, as well as to bring into touch with each other students and business men interested in the social and economic problems of the day. The meetings aim to counteract any tend-

ency to particularism which the geographical separation and the diverse interests might be deemed to foster.

The Publications of the Association, a complete list of which is printed at the end of this volume, were begun in March, 1886. The first series of eleven volumes was completed by a general index in 1897. The second series, comprising two volumes, was published in 1897–99, and in addition thereto the Association issued, during 1896–99, four volumes of Economic Studies. In 1900, a third series of quarterly Publications was begun with the Papers and Proceedings of the Twelfth Annual Meeting, and has been continued since with ample amount and variety of matter. It is intended to add to these quarterly numbers, from time to time, such monographic supplements as the condition of the treasury and the supply of suitable manuscript may make possible.

The American Economic Association is the organ of no party, sect or institution. It has no creed. Persons of all shades of economic opinion are found among its members, and widely different views are given a hearing in its annual meetings and through its publications.

The officers of the Association and the contributors to its publications receive no pay for their services. Its entire receipts are expended in printing and circulating the publications and in the slight expenses attendant upon the annual meetings. Any member, therefore, may regard his annual dues either as a subscription to an economic publication, a payment for membership in a scientific association, or a contribution to a publication fund for aiding the publication of valuable manuscript that might not be accepted by a publishing house governed primarily by motives of profit, and that could not be published by the writer without incurring too heavy a burden of expense.

CONSTITUTION

ARTICLE I.

NAME.

This Society shall be known as the AMERICAN ECONOMIC ASSOCIATION.

ARTICLE II.

OBJECTS.

1. The encouragement of economic research, especially the historical and statistical study of the actual conditions of industrial life.

2. The publication of economic monographs.

3. The encouragement of perfect freedom of economic discussion. The Association as such, will take no partisan attitude, nor will it commit its members to any position on practical economic questions.

4. The establishment of a bureau of information designed to aid members in their economic studies.

ARTICLE III.

MEMBERSHIP.

Any person may become a member of this Association by paying three dollars, and after the first year may continue a member by paying an annual fee of three dollars. On payment of fifty dollars any person may become a life member, exempt from annual dues.[1]

ARTICLE IV.

HONORARY MEMBERS.

The Council may elect foreign economists of distinction not exceeding twenty-five in number, honorary members of the Association. Each honorary member shall be entitled to receive all reports and publications of the Association.

[1] NOTE—Each member receives all reports and publications of the Association.

ARTICLE V.

OFFICERS.

The officers of the society shall consist of a President, three Vice-Presidents, a Secretary, a Treasurer, a Publication Committee, and a Council.

ARTICLE VI.

COUNCIL.

1. The Council shall consist of an indefinite number of members of the society, chosen, with the exception of the original members, for three years. It shall have power to fill all vacancies in its membership, and may add to its number.

2. It shall elect the President, Vice-Presidents, Secretary, and Treasurer; the President, the Secretary, the Treasurer, the Chairman of the Publication Committee, and the ex-Presidents, together with three other members to be elected by the Council, shall constitute an Executive Committee with such powers as the Council may entrust to it; provided, that a quorum shall consist of four of the seven elected officers; and provided further that the offices of Secretary and of Treasurer may be filled by one person, and that the offices of Vice-President and of elected member of the Executive Committee may be filled by one person.

3. The Council shall organize itself into a number of standing committees upon the various lines of research undertaken. These committees shall prepare reports from time to time upon such subjects relating to their respective departments as they may select, or as may be referred to them by the Council. These reports shall be presented to the Council at its regular or special meetings and be open to discussion. All papers offered to

the society shall be referred to the appropriate committees before being read in Council.

4. The Council shall have charge of the general interests of the society, and shall have power to call meetings and determine what reports, papers, or discussions are to be printed, and may adopt any rules or regulations for the conduct of its business not inconsistent with this constitution.

5. The Council shall elect a Committee on Publications, which shall consist of six members, so classed that after the first election the term of two members shall expire each year. This committee shall have charge of and responsibility for the scientific publications of the Association.

ARTICLE VII.

AMENDMENTS.

Amendments, after having been approved by a majority of the Council, may be adopted by a majority vote of the members present at any regular meeting of the Association.

BY-LAWS.

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1. The President of the Association, who shall be *ex-officio* a member of the Council, shall preside at all meetings of the Council and Association, and perform such other duties as may be assigned to him by the Council. In case of inability to perform his duties, they shall devolve upon the Vice-Presidents in the order of their election, upon the Secretary and Treasurer, and upon the Chairmen of the Standing Committees, in the order in which the committees are mentioned in the list.

2. The Secretary shall keep the records of the Association, and perform such other duties as the Council may assign to him.

3. The Treasurer shall receive and have the custody of the funds of the Association, subject to the rules of the Council.

4. The following Standing Committees shall be organized:

(1) On Labor.
(2) On Transportation.
(3) On Trade.
(4) On Public Finance.
(5) On Industrial and Technical Education.
(6) On Exchange.
(7) On General Questions of Economic Theory.
(8) On Statistics.
(9) On Teaching Political Economy.

The Executive Committee may appoint such special committees as it may deem best.

5. At any meeting called by the general summons of the President five members shall constitute a quorum.

6. Papers offered for the consideration of the Council shall be referred by the Secretary, each to its appropriate committee.

7. In order to encourage economic research, the Association proposes to render pecuniary assistance in the prosecution of the same, and to offer prizes for the best monographs upon selected topics. It stands ready to accept and administer any fund placed at its disposal for either purpose.

8. The Executive Committee shall have power at any time to add new members to the Council.

9. The Executive Committee shall assign all members of the Council to one of the Standing Committees, and shall appoint the Chairmen of the Committees.

10. It shall be the duty of the Chairmen of the respective Committees to organize and direct the work of the same, under the general control of the Council.

FORMER PRESIDENTS

*FRANCIS A. WALKER, Massachusetts Inst. of Technology.

*CHARLES F. DUNBAR, Harvard University.

JOHN B. CLARK, Columbia University.

HENRY C. ADAMS, University of Michigan.

ARTHUR T. HADLEY, Yale University.

RICHARD T. ELY, University of Wisconsin.

EDWIN R. A. SELIGMAN, Columbia University.

OFFICERS FOR THE YEAR 1905

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Vice-Presidents.

HORACE WHITE, New York City.

MARTIN C. KNAPP, Washington, D. C.

CHARLES R. CRANE, Chicago, Ill.

Secretary and Treasurer.

FRANK A. FETTER, Cornell University, Ithaca, N. Y.

Publication Committee.

JACOB H. HOLLANDER, Chairman, Johns Hopkins University, Baltimore, Md.

A. W. FLUX, McGill University.

DAVIS R. DEWEY, Massachusetts Inst. of Technology.

DAVID KINLEY, University of Illinois.

WILLIAM A. SCOTT, University of Wisconsin.

HENRY R. SEAGER, Columbia University.

Executive Committee.

Ex-Officio Members—

THE PRESIDENT

THE SECRETARY-TREASURER

THE CHAIRMAN PUBL. COM.

Elected Members—

WINTHROP M. DANIELS, Princeton University.

HENRY B. GARDNER, Brown University.

BALTHASAR H. MEYER, University of Wisconsin.

*Deceased.

COUNCIL.

Term of office expiring in 1905.

Foy Spencer Baldwin, Boston University.
Don C. Barrett, Haverford College.
Charles Beardsley, Harvard University.
William F. Blackman, Rollins College.
John Graham Brooks, Cambridge, Mass.
William M. Burke, Albion College.
Robert C. Chapin, Beloit College.
Walter E. Clark, New York City.
Frederic R. Clow, Oshkosh Normal College.
James W. Crook, Amherst College.
John F. Crowell, Bureau of Statistics, Department of Commerce and Labor.
Edward T. Devine, Charity Organization Society, N. Y.
Richard T. Ely, University of Wisconsin.
Roland P. Falkner, Library of Congress.
Henry W. Farnam, Yale University.
Henry Ferguson, Trinity College.
Irving Fisher, Yale University.
George M. Fisk, University of Illinois.
Worthington C. Ford, Library of Congress.
Hamline H. Freer, Cornell College.
Henry B. Gardner, Brown University.
George P. Garrison, University of Texas.
Franklin H. Giddings, Columbia University.
Nicholas P. Gilman, Meadville, Pa.
William H. Glasson, Trinity College.
Frank J. Goodnow, Columbia University.
Elgin R. L. Gould, New York City.
Frederick C. Hicks, University of Cincinnati.
Jacob H. Hollander, John Hopkins University.
Edmund J. James, University of Illihois.
Emory R. Johnson, University of Pennsylvania.
Edward D. Jones, University of Michigan.
Lindley M. Keasbey, Bryn Mawr College.
Gustav A. Kleene, Trinity College.
Isador Loeb, University of Missouri.
Frank L. McVey, University of Minnesota.
Milo R. Maltbie, Art Commission of New York City.
Balthasar H. Meyer, University of Wisconsin.
Wallace E. Miller, Columbus, Ohio.
Herbert E. Mills, Vassar College.
Thomas W. Page, University of California.
William Z. Ripley, Harvard University,
Benjamin H. Ripton, Union College.

ALBERT SHAW, Review of Reviews.
VLADIMIR SIMKHOVITCH, Columbia University.
ALBION W. SMALL, University of Chicago.
JOHN L. STEWART, Lehigh University.
ALFRED H. STONE, Washington, D. C.
FRANK W. TAUSSIG, Harvard University.
CHARLES A. TUTTLE, Wabash College.
THOMAS K. URDAHL, Colorado College.
FRANCIS WALKER, Department of Commerce and Labor.
LESTER F. WARD, Smithsonian Institute.
ADNA F. WEBER, New York Bureau of Labor Statistics.
HORACE WHITE, New York Evening Post.
GEORGE R. WICKER, Dartmouth College.
ALLYN A. YOUNG, Dartmouth College.

Term of office expiring in 1906.

LYMAN ABBOTT, The Outlook.
THOMAS S. ADAMS, University of Wisconsin.
MORTON A. ALDRICH, Tulane University.
ABRAM P. ANDREW, Harvard University.
GEORGE E. BARNETT, Johns Hopkins University.
EDWARD W. BEMIS, Cleveland, Ohio.
RICHARD R. BOWKER, New York City.
ROELIFF M. BRECKENRIDGE, West Hamilton, Ontario.
CHARLES J. BULLOCK, Harvard University.
GUY S. CALLENDER, New Haven, Conn.
THOMAS N. CARVER, Harvard University.
FREDERICK A. CLEVELAND, New York City.
CHARLES A. CONANT, Morton Trust Co., New York City.
EDWARD CUMMINGS, Cambridge, Mass.
JOHN P. CUSHING, New Haven, Conn.
WINTHROP M. DANIELS, Princeton University.
DAVIS R. DEWEY, Massachusetts Institute of Technology.
FRANK H. DIXON, Dartmouth College.
E. DANA DURAND, Washington, D. C.
CHARLES E. EDGERTON, Washington, D. C.
CHARLES S. FAIRCHILD, New York City.
FRANK A. FETTER, Cornell University.
WILLARD C. FISHER, Wesleyan University.
A. W. FLUX, McGill University.
J. DORSEY FORREST, Butler College.
WILLIAM W. FOLWELL, University of Minnesota.
JOHN E. GEORGE, Northwestern University.
JOHN M. GLENN, Baltimore, Md.
DAVID I. GREEN, Hartford, Conn.
JACOB L. GREEN, Hartford, Conn.

GEORGE GUNTON, Washington, D. C.
ARTHUR T. HADLEY, Yale University.
JAMES E. HAGERTY, Ohio State University.
JAMES H. HAMILTON, University Settlement, N. Y.
MATTHEW B. HAMMOND, Ohio State University.
HENRY R. HATFIELD, University of California.
JEREMIAH W. JENKS, Cornell University.
GEORGE W. KNIGHT, Ohio State University.
J. LAURENCE LAUGHLIN, University of Chicago.
SAMUEL M. LINDSAY, University of Pennsylvania.
ISAAC A. LOOS, Iowa State University.
JAMES A. MACLEAN, University of Idaho.
JOHN J. MCNULTY, College of the City of New York.
THEODORE MARBURG, Baltimore, Md.
CHARLES W. MIXTER, Burlington, Vermont.
HENRY L. MOORE, Columbia University.
SIMON NEWCOMB, Washington, D. C.
VICTOR ROSEWATER, Omaha Bee.
LEO. S. ROWE, University of Pennsylvania.
FREDERICK W. SANDERS.
EDWIN R. A. SELIGMAN, Columbia University.
MARY ROBERTS SMITH, Stanford University.
GRAHAM TAYLOR, Chicago, Ill.
W. G. LANGWORTHY TAYLOR, University of Nebraska.
CHARLES W. TOOKE, Syracuse University.
EDSON N. TUCKEY, Yale University.
D. COLLIN WELLS, Dartmouth College.
NATHAN A. WESTON, University of Illinois.
ROBERT H WHITTON, New York State Library.
A. P. WINTON, Washington University.
STUART WOOD, Philadelphia, Pa.

Term of office expiring in 1907.

HENRY C. ADAMS, University of Michigan.
J. H. ARNOLD, Redfield, South Dakota.
WILLIAM B. BAILEY, Yale University.
JAMES W. BLACK, Colby University.
ERNEST L. BOGART, Oberlin University.
JOHN B. CLARK, Columbia University.
KATHARINE A. COMAN, Wellesley College.
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JOHN CUMMINGS, University of Chicago.
ARTHUR M. DAY, New York City.
HENRY CROSBY EMERY, Yale University.
E. F. GAY, Harvard University.

Washington Gladden, Columbus, Ohio.
John H. Gray, Northwestern University.
Frederick B. Hawley, New York City.
George K. Holmes, U. S. Department of Agriculture.
Frederick C. Howe, Cleveland, Ohio.
Charles H. Hull, Cornell University.
John Hyde, Washington, D. C.
Alvin S. Johnson, Columbia University.
David Kinley, University of Illinois.
Martin A. Knapp, Interstate Commerce Commission.
Henry W. Lamb, Brookline, Mass.
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Charles W. Macfarlane, Philadelphia, Pa.
S. J. McLean, Leland Stanford University.
Frederick W. Moore, Vanderbilt University.
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J. Pease Norton, New Haven, Conn.
Simon N. Patten, University of Pennsylvania.
William R. Patterson, Iowa City, Iowa.
Edward T. Peters, U. S. Department of Agriculture.
Carl C. Plehn, University of California.
Jesse E. Pope, University of Missouri.
Harry H. Powers, Boston, Mass.
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Maurice H. Robinson, University of Illinois.
Edward A. Ross, University of Nebraska.
Frank R. Rutter, Washington, D. C.
John C. Schwab, Yale University.
William A. Scott, University of Wisconsin.
Henry R. Seager, Columbia University.
Ernest A. Smith. Allegheny College.
Oliver M. W. Sprague, Harvard University.
Worthy P. Sterns, Bureau of Statistics, U. S. Treasury Dept.
Fred M. Taylor, University of Michigan.
H. C. Taylor, University of Wisconsin.
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G. O. Virtue, Winona, Minn.
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Ulysses G. Weatherly, Indiana University.
Max West, Bureau of Corporations, Washington.
Albert C. Whitaker, Stanford University.
Walter F. Willcox, Cornell University.
H. Parker Willis, Washington and Lee University.
William F. Willoughby, U. S. Department of Labor.
Carroll D. Wright, U. S. Department of Labor.
Walter A. Wyckoff, Princeton University.

MINUTES OF THE COUNCIL MEETING

The Council met Wednesday, December 28th, 1904, at 11:50 A. M., at the Reynolds Club, in the building of the Chicago University. The reading of the minutes of of the previous meeting, which had been published in the Proceedings, was passed. The secretary-treasurer read his annual reports as follow:

REPORT OF THE SECRETARY TO THE COUNCIL OF THE AMERICAN ECONOMIC ASSOCIATION

DECEMBER 28, 1904

Two meetings of the Executive Committee have been held during the year. At the first meeting held April 30th in New York, the committee considered the subjects of the arrangements and program for the next meeting, and of the publications, and authorized the employment of an assistant secretary at a salary of $500 for the year. Mr. Albert C. Muhse is now filling this position.

At the second meeting held November 26th at New York were discussed other questions pertaining to the coming meeting, and the following resolution was ordered reported to the Council:

"*Resolved*, That under the authority granted by the Council at the New Orleans meeting in December, 1903, the Executive Committee extend an invitation to the Councils of the American Historical Association and the American Political Science Association to join with the American Economic Association in forming a permanent joint committee on time and place of meeting, to be composed of two delegates from each of the three Associations.

"*Resolved*, That if this joint committee be formed, the permanent sub-committee representing the Executive

Committee of the American Economic Association be composed of the President, and of one other member of the Executive Committee to be appointed by him."

The publication policy was taken under consideration, and the chairman of the Publication Committee was requested to make inquiries looking toward a report to the Council.

Three committees of the Council are now outstanding—the Committee on Municipal Accounting and Finance, Frederick A. Cleveland, Chairman; the Committee on Index Numbers, Carl C. Plehn, Chairman; and the Committee on the Economic Position of the Negro, Walter F. Willcox, Chairman. The last named Committee has put into the hands of the Secretary a report to be presented to the Council. (See Index for Report.)

At the date of this report there are 1029 members, this being an increase of 35 over the 994 reported to the Council a year ago. During the present year 9 members have died, 45 have resigned, 30 were dropped for non-payment of dues, the total loss of members being 84 and of subscribers 4. Four subscribers and 119 new members have been added.

The Publication Committee has continued the unusual record which it made a year ago. The publications have been issued regularly, only the first number containing the proceedings of the last meeting being delayed beyond the month in which it was dated. The total number of pages published this year is 904. The Treasurer's account shows a balance of cash on hand, $3560.30, an increase of $520.20. The Association is free from debt with the exception of some minor bills of recent date.

Respectfully submitted,

FRANK A. FETTER.

TREASURER'S REPORT

FRANK A, FETTER, Treasurer.

In account with the American Economic Association for the year ending December 22, 1904.

Debits.

Cash on hand at date of last report		$3,040 10	
Sales and subscriptions—			
The Macmillan Co	$906 70		
Secretary's office	265 41	$1,172 11	
Reprints		49 47	
Life membership		50 00	
Annual dues		2,340 00	
Interest		52 50	

Credits.

Expense of publications			$2,131 07
Expense sixteenth annual meeting			91 99
Sec. and Treas. office expenditure			
Clerical help	$608 03		
Stationery, stamps, and miscellaneous expenses	312 79		920 82
Balance in cash			3,560 30
		$6,704 18	$6,704 18

The President appointed as an Auditing Committee Messrs. Adna F. Weber and Frank R. Rutter.

The following new members of the Council were nominated and unanimously elected: E. F. Gay, Harvard; J. Laurence Laughlin, Chicago; S. J. McLean, Stanford; H. C. Taylor, Madison; A. P. Winston, St. Louis.

A report signed by all the members of the Committee on the Economic Position of the American Negro was accepted and ordered to be printed in the Proceedings.

The Committee on Index Numbers, and on Financial Accounting, reported progress and were continued.

The report of the Publication Committee, which was signed by all the members, was read. The Council voted that the report be received, placed on file, and

printed. It was moved by Mr. Ripley that the discussion of the report be deferred until the Committee was ready to present the further report, which it asked the privilege of doing at a later meeting.

The following Nominating Committee was appointed: Henry C. Adams, Chairman; R. T. Ely, W. C. Ford, John Cummings, A. P. Andrew.

The following Committee on Resolutions was appointed: W. A. Scott, H. B. Gardner, W. Z. Ripley.

The Council adjourned at 12:20 to meet Thursday evening at 8 o'clock.

The Council met Thursday, December 29, 1904, at 8:30 P. M. in the Reynolds Club House, President Taussig in the chair.

H. B. Gardner reported on behalf of the Committee on Time and Place that the Association meet in Baltimore in 1905, with the expectation that the meeting be held in Providence in 1906, and moved that the meeting at Baltimore be now authorized. Carried.

It was moved by Irving Fisher that a joint meeting with the American Association for the Advancement of Science, which has a section on Social and Economic Science, be considered by the Executive Committee for the year following or later, and be reported to the next meeting of the Council. Carried.

H. B. Gardner reported from the Executive Committee a resolution that the committee take under advisement the amendment of the constitution in a manner involving the abolition of the Council. Carried.

On behalf of the Nominating Committee, H. C. Adams, Chairman, reported the following officers for the year 1905: For President, F. W. Taussig; for Vice-Presidents, Horace White, Martin A. Knapp, Charles R. Crane; for Secretary-Treasurer, Frank A. Fetter; for

elected members of the Executive Committee, W. M. Daniels, H. B. Gardner, H. B. Meyer; for members of the Publication Committee, Jacob H. Hollander, Chairman, and A. W. Flux. On motion of H. R. Seager the Secretary was instructed to cast one ballot for these candidates.

A. F. Weber reported for the Auditing Committee that the financial balance had been verified and approved.

J. H. Hollander reported for the Publication Committee as follows: "*Resolved*, Whereas in its present publication activities, the Association fails to realize its maximum usefulness, either scientific or practical; that the path to such usefulness lies in the publication of an Association Journal, aided in so far as possible by financial subventions and guarantees; that the Executive Committee be authorized to proceed with the establishment of such a Journal, supplementary to the monographic issues, through the agency of the Publication Committee or otherwise, provided that the requisite financial arrangements can be made."

An amendment by F. L. McVey to the effect that the plan be referred to the Executive Committee to report to the Council a year hence was withdrawn in favor of the following substitute, introduced by Theodore Marburg and accepted by J. H. Hollander: "Resolved, That it is the sense of this meeting that it is desirable that this Association establish a Journal." The motion was carried.

It was moved by Mr. Hollander that the Executive Committee be authorized to proceed through the Publication Committee or otherwise, to establish an economic journal in addition to the existing journals, provided that, in its judgment, such a measure is expe-

dient, and that the requisite financial arrangements can be made. Carried.

The Committee on Resolutions reported through the Chairman, W. A. Scott, as follows:

"*Resolved*, Whereas the success of the present session of the American Economic Association and the comfort of its members has been due in great part to the facilities placed at our disposal by the University of Chicago, Northwestern University, the Chicago Historical Society, the Quadrangle Club, University Club, Union League Club, and Chicago Women's Club,—that we extend our thanks to each of these organizations, and to those who have extended social courtesies to the Association, and that our Secretary be requested to convey this expression of our appreciation to their respective Presidents."

F. C. Howe introduced a series of resolutions favoring the investigation by the national government of certain economic movements, and on motion of Mr. Marburg, the resolutions were recommended to the Executive Committee with power to act.

The Council adjourned at 10:30.

THE SEVENTEENTH ANNUAL MEETING

The Seventeenth Annual Meeting of the American Economic Association was held at Chicago, December 28–30, 1904, under the auspices of the University of Chicago. The American Historical and the American Political Science associations met at the same time and place, and joint sessions were held with both organizations. The meeting was large and most successful.

The program as carried out was as follows:

PROGRAM

Wednesday, 10.30 A. M., December 28th.

JOINT SESSION WITH THE AMERICAN POLITICAL SCIENCE ASSOCIATION, AND THE AMERICAN HISTORICAL ASSOCIATION.

Leon Mandel Assembly Hall.

1. Address of Welcome by WILLIAM R. HARPER, President of the University of Chicago.
2. Presidential Address, The Work of the American Political Science Association, by FRANK J. GOODNOW, Columbia University, President of the American Political Science Association.

Wednesday, 12 M., December 28th.

MEETING OF THE COUNCIL.

Reynolds Club House.

Second Session—Wednesday, 8 P. M., December 28th.

JOINT SESSION WITH THE AMERICAN HISTORICAL ASSOCIATION.

Chicago Historical Society.

1. Presidential Address, The Present Position of the Doctrine of Free Trade, by FRANK W. TAUSSIG, Harvard University, President of the American Economic Association.
2. Presidential Address, The Treatment of History, by GOLDWIN SMITH, Toronto, President of the American Historical Association.

Third Session—Thursday, 10.30 A. M., December 29th.

THE THEORY OF MONEY.

Leon Mandel Assembly Hall.

1. The Theory of Price and some of its Applications. J. LAURENCE LAUGHLIN, University of Chicago.
2. The Influence of the Credit System on the Value of Money. DAVID KINLEY, University of Illinois.
3. Credit and the Value of Money. A. PIATT ANDREW, Harvard University.
4. Discussion by WILLIAM A. SCOTT, University of Wisconsin; IRVING FISHER, Yale University; THOMAS N. CARVER, Harvard University; HENRY R. SEAGER, Columbia University; J. LAURENCE LAUGHLIN, University of Chicago; HENRY B. GARDNER, Brown University; FREDERICK R. CLOW, Oshkosh, Wis.; DAVID KINLEY, University of Illinois.

Fourth Session—Thursday, 2.30 P. M., December 29th.

OPEN SHOP OR CLOSED SHOP?

Leon Mandel Assembly Hall.

1. Causes of the Union Shop Policy. JOHN R. COMMONS, University of Wisconsin.
2. The Issues of the Open and Closed Shop. JOHN GRAHAM BROOKS, President of the American Social Science Association.
3. An Employer's View. JOHN HIBBARD, President of the John Davis Co., Chicago, Ill.
4. The Open Shop versus Trades Unionism. THOMAS KIDD, General Secretary Amalgamated Woodworkers.
5. Discussion by EDWARD A. ROSS, University of Nebraska; TOWNER K. WEBSTER, Chicago, Ill.; GEORGE E. BARNETT, Johns Hopkins Uuiversity.

Fifth Session—Friday, 10.30 A. M., December 30th.

JOINT SESSION WITH THE AMERICAN POLITICAL SCIENCE ASSOCIATION.

CORPORATIONS AND RAILWAYS.

Reynolds Club.

1. Governmental Interference with Industrial Combinations. EDWARD B. WHITNEY, of New York.
2. The Regulation of Railway Rates. MARTIN A. KNAPP, Chairman of the Interstate Commerce Commission.

3. Discussion by EDWARD P. RIPLEY, President of the Atchison, Topeka & Santa Fé Railway System; JOHN H. GRAY, Northwestern University; W. Z. RIPLEY, Harvard University; H. P. NEWCOMB; F. B. THURBER, President U. S. Export Association; WILLIAM W. FOLWELL, Minneapolis; EDWARD P. RIPLEY, EDWARD B. WHITNEY, New York; HORACE WHITE.
4. Tendencies in the Law of Taxation of Railways. HENRY C. ADAMS, University of Michigan.
5. Discussion by WILLIAM W. BALDWIN, Land Commissioner of the Chicago, Burlington & Quincy Railway.

Sixth Session—Friday, 2.30 P. M., December 30th.

PREFERENTIAL TARIFFS AND RECIPROCITY.

Reynolds Club.

1. Preferential Tariffs as between Canada and Great Britain. ADAM SHORTT, Queen's University, Kingston, Canada.
2. The Argument for Preference. GEORGE E. FOSTER, sometime Minister of Finance, Toronto.
3. Do Reciprocally Preferential Tariffs tend toward Free Trade? A. W. FLUX, McGill University, Montreal.
4. Discussion by H. PARKER WILLIS, Washington and Lee University; GEORGE M. FISK, University of Illinois; S. W. J. MCLEAN, Leland Stanford University.

Seventh Session—Friday, 8 P. M., December 30th.

JOINT SESSION WITH THE AMERICAN HISTORICAL ASSOCIATION.
ECONOMIC HISTORY.

Northwestern University Building.

1. The Significance of the Enclosure Movement in England. EDWIN F. GAY, Harvard University.
2. The Projected Economic History of the United States. CARROLL D. WRIGHT, Clark University.
3. Discussion by JOHN B. MCMASTER, University of Pennsylvania; CHARLES H. HULL, Cornell University; JACOB H. HOLLANDER, Johns Hopkins University; HENRY R. SEAGER, Columbia University; CARROLL D. WRIGHT.

REPORT OF THE PUBLICATION COMMITTEE SUBMITTED TO THE COUNCIL OF THE AMERICAN ECONOMIC ASSOCIATION, AT THE SEVENTEENTH ANNUAL MEETING HELD AT CHICAGO, DECEMBER 28–30, 1904.

Your Committe begs respectfully to submit the following report:

During the calendar year now drawing to a close, there have been published and distributed among the membership of the Association four (4) monographic issues constituting Volume Five of the third series of Association Publications. It is noteworthy that for the first time in a number of years these monographs have been issued at regular scheduled intervals and the entire volume completed prior to the annual meeting. In quality the monographs compare favorably—it is believed—with earlier volumes, and the absence of time pressure has permitted more careful editorial revision than has heretofore been the case.

In addition to arranging for the regular series of monographs, the Publication Committee—acting under the instructions of the Council at the New Orleans meeting—prepared and issued as a supplement a list of dissertations in progress in American universities on January 1, 1904 in the fields of political economy, sociology, finance and related subjects. Unless instructions to the contrary are received, it is proposed by your Committee to publish this list, suitably revised, annually hereafter.

Acting under the further instructions of the Council to encourage the preparation of economic bibliographies, your Committee has arranged for the preparation of the first of such bibliographies, dealing with the special

subject of the theory of wages. It is expected that this compilation will be completed and issued during the coming year.

In regard to the second subject recommended for publication activity, viz.: "Economic Legislation,—your Committee has instituted certain inquries and carried on some correspondence with a view to securing a person competent and willing to assume charge of the work. Here, too, it is hoped that the coming year will witness definite achievement.

In so far as the publication activities of the Association are confined essentialy to present lines, your Committee also feels warranted in expressing some satisfaction with respect to the future outlook. The condition which for a number of years so seriously embarrassed us, viz.: inability to obtain monographic material suitable for publication has definitely passed. Of the three monographs which, in addition to the proceedings of the Annual Meeting, we should under ordinary circumstances publish in 1905—two, of very considerable merit, have already been accepted, and are now undergoing final revision and preparation for the press. It seems reasonable to suppose that this state of affairs will continue and even improve, and that although the monographic material submitted to your Committee in the future will not be very different in kind from that heretofore received, yet the larger field for choice and the more adequate time for editorial examination and revision will result in gradual improvement in degree. Similarly, in regard to the work more recently assigned to your Committee in the direction of Economic Bibliography and Economic Legislation. It is true that with the multiplication of institutional publications, monographic and serial, and the heightened activities

of public and private agencies of research, increasing difficulty may be experienced in finding properly qualified persons to undertake such laborious and unremunerative tasks. On the other hand, it is certain that in economic research, as elsewhere, activity begets activity, and that further, your Committee, relieved from the necessity of beating by-ways and hedges for available monographic material, is now able to devote greater energy and time to these new occasions.

There are certain further publication activities—kindred rather than distinct—of the propriety of which your Committee is convinced, and responsibility for which—if so instructed—it is prepared to assume. The first of these is an authorative bibliography of the economic writings of the membership of the Association. The second is the translation and publication at intervals, of notable foreign contributors to economic literature—enduring in content or historic in time—such for example as Roscher's unobtainable and inaccessible *Zur Geschichte der Englischen Volkswirtschaftslehre.* The third is the occasional reprint of an historically interesting economic text, such for example as Frederick List's Letters on American Political Economy. It is suggested that such publications be issued as supplements to the regular series of monographs, at irregular intervals in accordance with the conditions of the Association's treasury and the judgment of the Executive Committee.

There remains to be discussed the perennial subject of a more radical extension of the Association's publication activities. Positive occasion for such discussion at this time is given by the instruction of the Council at the New Orleans meeting that the Publication Committee should submit in outline a plan of publication at the

present meeting, and by the further request of the Executive Committee at a meeting held in New York City on Nov. 26, 1904, that the Chairman of the Publication Committee make inquiry regarding the desirability and expediency of some plan of Association co-operation in publication with the *Quarterly Journal of Economics.* In accordance with the latter request, a circular letter of inquiry was addressed to twenty-two members of the Association, whose opinions would be likely most to influence the action of the Committee in presenting a report to the Council. This letter proposed a plan of co-operation in publication with the *Quarterly Journal of Economics* which should contemplate (1) the receipt of the *Journal* by each member of the Association, (2) the insertion of certain matter in each issue of the *Journal* in the nature of a department of personal notes and Association announcements, (3) Association representation in the conduct of the *Journal.* At this time of writing, answers have been received from eighteen out of the twenty-two persons addressed. The result of the correspondence is such as—in the opinion of your Committee—to render unprofitable any further discussion of the plan. As a project, it failed throughout to evoke any enthusiasm, and although a considerable number of the replies favored the plan—a limited number with cordiality—yet even here the sentiment seems to be acquiescence in a last resort rather than choice of a favored policy.

Under these circumstances, your Committee recommend that the Association continue to publish as heretofore, in addition to the Proceedings of the Annual Meeting, an annual series of economic monographs of improving quality, supplemented at irregular intervals

by such further publications as have been described above.

Your Committee further believe that in its present publication activities the Association fails to realize its maximum usefulness, either scientific or practical; and that the path to such usefulness lies in the publication, supplementary to the monographic issues, of an Association journal aided in so far as possible by financial subventions and guarantees. Accordingly your Committee recommend as follows:

Resolved, Whereas in its present publication activities the Association fails to realize its maximum usefulness, either scientific or practical; that the path to such usefulness lies in the publication of an Association Journal, aided in so far as possible by financial subventions and guarantees; that the Executive Committee be authorized to proceed with the establishment of such a Journal, supplementary to the monographic issues, through the agency of the Publication Committee or otherwise, provided that the requisite financial arrangements can be made.

All of which is very respectfully submitted.

JACOB H. HOLLANDER,
Chairman of the Publication Committee.

ADDRESS OF WELCOME

WILLIAM R. HARPER,

President of the University of Chicago.

Mr. President, Ladies and Gentlemen :—It is a very pleasant duty that falls to my lot this morning. The West, if we may call Chicago west, has always extended the hand of welcome to those who come from the East. As history has shown, this was the natural thing to do. There have been times, perhaps, when the feeling between the east and the west was less cordial than it is to-day. When armies and those whom armies represented have come west, the west at times has been inclined to resist, but in the end the East has always conquered, and the flow of civilization has continued westward. There was never a time when the feeling existing between the East and the West was more cordial than it is to-day. We are bound together not only by rails of steel, but by common interests that affect every phase of modern life. I speak of you as eastern men and women because not often you hold your meetings at a point as far west as Chicago. But I realize that men have come to these meetings not only from the east, but as well from the south and the northwest and the far west. We appreciate the great honor you have shown us at this University in favoring us with your presence. We believe that your visit just at this time will have an important and significant influence upon the affairs of this great city and this Mississippi Valley, and we thank you that you have honored us in this conspicuous way.

As you look about upon our streets and upon our

buildings, will you kindly remember that every building in the City of Chicago has been erected within the lifetime of individuals still living here? When you study the institutions of this city, will you kindly remember that practically everything in the way of institutional life has come within a quarter of a century, and that men are making an effort to accomplish within that brief period what other cities have perhaps accomplished in a century or more of time?

The three societies which meet together at this time and place represent three interests of great concern to the people of our country. We are just awakening to the fact that as a people we have been making history, and entering into that world-life to which every civilized nation makes contribution. The crises through which we have passed in recent times have been of such a character as to convince us as a people that we need to think more carefully in respect to the theoretical side of our political doctrine. Never before in the history of this country have the men who occupy the chairs of Political Economy in our colleges and universities wielded so large an influence. Our bitter municipal experiences, as well as the new problems which democracy has forced upon us, show quite clearly that we have not put into practice the wisdom of the political scientist, even as far as that wisdom has been formulated. The whole situation is singularly open to suggestion and ripe for improvement. In these three fields of thought and activity which are by no means distinctly separated one from another, opportuuity for new thought and new suggestion is unlimited. It is greatly to be desired that this series of meetings will furnish a real contribution which shall elevate the life and thought of

our beloved country, and that in these friendly gatherings many of us as individuals shall find new inspiration and help for the work that lies before us.

On behalf of the City of Chicago, and on behalf of the University, I bid you welcome, and express the hope that no meeting thus far held by the associations here represented shall have contributed more to the fundamental purpose of these organizations than that which now opens its sessions.

PAPERS AND DISCUSSIONS

THE PRESENT POSITION OF THE DOCTRINE OF FREE TRADE

PRESIDENTIAL ADDRESS BY FRANK W. TAUSSIG

Forty years ago, the doctrine of free trade seemed to be triumphant, alike in the judgments of thinkers and in the policy of the leading countries. The school of Adam Smith and Ricardo had swept the board in Great Britain, and its conclusions, as set forth in John Stuart Mill's Principles, were thought to represent the definitive outcome of economic inquiry. Among these conclusions, the one least open to doubt seemed to be that, between nations as between individuals, free exchange brought about the best adjustment of the forces of production; and international free trade was regarded as the one most potent means of increasing the efficiency of labor. In legislation, the triumph seemed to be no less assured. England, after a series of moves in the direction of lower duties, had at last taken the sudden plunge to free trade in the dramatic repeal of the corn laws in 1846. Not long after, France, by the commercial treaty of 1860 with England, had replaced the old regime of rigid protection and prohibition by a system of duties so moderate that the free trader might feel that his ideal, if not quite attained, yet could not be long delayed in complete realization. The treaty between France and England was soon followed by others of similar import between the various countries of Europe, spreading over all the Continent a net-work of reciprocal arrangements that greatly lowered the tariff barriers in the civilized world. In the United States a long period, from 1846 to 1861, had witnessed a marked relaxation of the protective system; and if the civil war had brought a return to high duties, this might be

ascribed to the financial exigencies of that crisis, and might reasonably be expected before long to give way once more to a moderate policy.

How different since then has been the course of events from what was confidently expected by the economists of 1860! Slowly but steadily the current has been reversed, and country after country has joined the protectionist ranks. The United States, so far from relaxing the high duties imposed during the civil war, has strengthened them and enlarged their range, and gradually built up a protective system the like of which was not dreamed of in earlier days. France, restive under the treaty regime of low duties, finally put an end to it in 1881, and then proceeded to build up once more a system of high protection. Germany took her decisive step in the same direction in 1879, and thereafter proceeded steadily to enlarge and elaborate her tariff barriers. Austria and Italy followed suit, and Russia has gone to the extreme in adopting protection. Even the old strongholds of free trade have become difficult to hold. Holland's latest tariff, while still disavowing deliberate protection, yet levies duties which, if ostensibly for financial yield, are inconsistent with a strict adherence to free trade. The leading English colonies, Canada and Australia, have ostentatiously abandoned that principle. England herself is in the throes of a discussion in which her policy of freedom, supposed to have been settled once for all, is attacked with vigor and effect; and who shall say what is to be the outcome of that discussion?

Not less striking is the change in temper among economic thinkers. The whole structure of economic theory is undergoing revision. Many of the doctrines of Adam Smith and Ricardo have no more than an his-

toric interest. It still remains to be seen, as to this larger discussion, just what the outcome will be in the reconstruction of economic teaching as a whole; but it is clear that, so far as the doctrine of free trade is concerned, enthusiasm has been supplanted by cautious weighing or open doubt. Half a century ago those German and French writers who advocated free trade were certain that the future was theirs: protection was the waning doctrine, and its advocates were hopelessly reactionary. At present, certainly in Germany and more or less in other countries, a large school has just the opposite feeling. Free trade would seem to be the waning doctrine. *Laissez-faire* and freedom have had their day, and the future belongs to the conscious direction of industry at the hands of the state. International free trade has no more sanctity or authority than any other part of the obsolete system of natural liberty, and the advantages or disadvantages of tariff restrictions are to be coolly weighed for each country by itself, in the light of specific experience.

a trifle [illegible]!

In view of this unmistakable change in the general attitude, even the most convinced free-trader must feel called on to reconsider the question, and weigh once more the arguments for protection. Some such task I propose for myself to-night: not indeed the formidable one of going over the entire subject afresh, but that of passing in review some of the arguments most commonly heard, and more especially those of which most is heard in our own country.

First of all, something may be said as to those aspects of the controversy of which most is heard in popular discussion in this country. Here, as it happens, the situation is comparatively simple; for there is perhaps a nearer approach to a consensus of opinion on current

popular arguments regarding protection than on any subject in the wide field of economics. As to most of the familiar arguments for protection, either all the economists are hopelessly in the wrong, or else the protectionist reasoning is hopelessly bad.

The mercantilist view of international trade, exploded though it has been time and again, has a singularly tenacious hold. Even among the most intelligent writers in financial journals, the familiar attitude is that of rejoicing in a gain of exports, regretting a gain of imports: rejoicing in an inflow of specie, bewailing its outflow; so familiar that probably the immense majority of persons who have never been systematically trained in economics take this point of view as a matter of course. Now, in a country whose monetary system is top-heavy, the relation of imports to exports may not automatically adjust itself without causing trouble. But the difficulty in such case, if there be one, is in the circulating medium, and presents questions of monetary reform, not any problem as to the gain or loss from international trade. No doubt there are some other problems of real complexity in the relation of exports and imports. A country whose exports grow rapidly and are readily absorbed by foreign countries, may thereby secure its imports on more advantageous terms. This has probably been the situation of the United States, especially during the last thirty years. On the other hand, a country which depends on international trade for obtaining commodities essential for its economic well-being and not procurable at home, must look to its exports as the means whereby these essentials shall be secured; and such a country must have a watchful eye on the continuance and growth of its exports. This has doubtless been the situation of England during the last thirty years. But these are

aspects of the theory of international trade quite beyond the ken of those who expound the virtues of protection to the general public. Here the exports are not regarded as the means of buying the imports: the exports are good *per se*, the imports bad *per se*. We may apply to this sort of talk a well-known passage of Adam Smith's:

"Some of the best English writers upon commerce set out with observing that the wealth of a country consists, not in its gold and silver only, but in its lands, houses, and consumable goods of all sorts. In the course of their reasoning, however, the lands, houses, and consumable goods, seem to slip out of their memory; and the strain of their argument frequently supposes that all wealth consists in gold and silver, and that to multiply these metals is the great object of national industry and commerce."

So the every-day writers on foreign trade would admit at the outset that its only object is the same as that of all labor and trade: to increase the sum of enjoyable commodities, and to do so by getting the imports we consume, not by selling the exports we get rid of. But as their reasoning proceeds, the consumable commodities somehow slip out of their memory, and all their talk is of gaining by sales and of losing by purchase, of the great glories of swelling exports, and the ill omen or domestic industry from growing imports.

Other ancient fallacies have a no less tenacious hold. We hear it proclaimed *ad nauseam* that protected industries give the farmer a home market; as if there were created a new and additional market, and not a mere substitute for the foreign market. It is part of the same ancient fallacy that the farmer's "surplus" is talked of as if it must be so much waste unless legislation provided a market for it. We all know how Adam Smith, in the days when the theory of international

trade was in the making, accepted the notion of a surplus; we all know, too, how easy it was for later writers to refute Adam Smith out of his own mouth. We are constantly told that a tax on imports acts as a burden on foreigners, not on the domestic consumer; though here, as in other parts of the controversy, the proposition is more often an implied premise than an explicit conclusion. Not least, how incessant is the blatant assumption that all prosperity is due to the protective system, and that disaster must ensue from any mitigation of its rigor. With some of these arguments, no doubt a nice analysis would bring into view certain conditions under which a measure of plausibility, nay of real validity, attaches to them. Thus, there are conditions under which taxes on commodities are borne in part, occasionally even in whole, by the producer and not by the consumer. These are exceptional conditions, and they are as likely to appear under internal taxes as under customs duties. But such exceptions and qualifications, found for every social and economic principle by the discriminating thinker, are not among the subjects of every-day debate. There we find the simple fundamental principle ignored, and the baldest of errors repeated. No doubt it is inevitable, in the popular discussion of economic problems, that arguments of the crudest sort should come to the fore. But I confess to a sense of humiliation when our leading statesmen turn to reasoning easy of refutation by every youth who has had decent instruction in elementary economics.

I do not wish to linger on these commonplaces; yet, at the risk of being tedious, will turn for a moment to that phase of the controversy which for near half a century has been most conspicuous in our country—the effect of

protection on wages. For years and years it has been dinned into the ears of the American people that high wages are the result of protection, or at least dependent on protection; that the maintenance of a high standard of living depends on the barrier against competing laborers of lower price, and that the workingman has a special and peculiar interest in the system of high duties. And yet I apprehend that here, too, the judgment of the economists would be with virtual unanimity the other way. The general range of wages in the United States was not created by protection and is not dependent on protection. The common talk about the sacredness of protection as a means of uplifting the workingman is mere claptrap.

No doubt there would be some difference in the way in which the economists stated the grounds of this conclusion. The theory of wages is one of their debatable fields, and some points are still to be settled. But for the purposes of the present discussion, these differences would not be material. By and large it would be agreed ?Lande! all hands that the fundamental cause of high wages is large productiveness of labor, and that so long as such productiveness exists a large reward to workmen will follow. The higher range of wages in the United States is due to the country's rich natural resources, and to the energy and intelligence with which these have been utilized. It may be that in certain directions the utilization of its resources has in some degree been hastened or made more effective by protection,—of this more hereafter. It may be that in other directions this utilization has been retarded and lamed by protection. But in either case it is beyond doubt that, whether we had had in the past complete free trade or the most unqualified protection, production would have been more generous

in the United States than in European countries, and wages higher; and it is no less certain that, whichever system we shall have in the future, we shall retain these same advantageous conditions.

But while the generally higher range of wages in the United States has nothing to do with protection, and probably not much to do with international free trade either, it does not follow that some among our laborers may not be dependent on the tariff barriers for their present wages in their present occupations. So far as the industries in which they are employed are really dependent on protection, the high wages paid in these particular cases are also dependent on protection. Looking at the dominant and normal conditions of industry in this country, we find high money wages and at the same time low prices of goods. Labor is efficient and goods are produced abundantly; therefore, though the goods are sold at low prices, the gross money yield is large, the money returns are high, and high money wages are paid. But in those industries in which labor is less efficient, and goods are not produced in abundance, the gross money yield can not be high unless competing products are kept out or handicapped. In this sense, and to this extent, the maintenance of high wages in some industries depends on the maintenance of protection.

To say this is to say that here, as in all cases of vested interests, whether of labor or of capital, serious problems present themselves to the legislator. The protectionists naturally exaggerate the extent to which industries are in fact dependent on this system, and indeed go to the absurd extreme of maintaining that all successful industry and all high wages depend on their panacea. The free-traders belittle it, and often fail to

see that in so doing they minimize also those consequences of protection which they think bad. The diversion of labor and capital to less productive channels —the ill effect which is the essence of the free-trade contention—is precisely in proportion to the range of industries in which the maintenance of high wages depends on protection. No doubt also the free-traders do not squarely face the difficulties of a transition to their system: the slowness with which capital and labor would have to be withdrawn from protected industries, and the prolonged period of unsettlement which would have to be undergone before final readjustment.

Before leaving this part of the controversy, I will note one other aspect of it,—one that touches our pressing social problems. The industries in which labor is efficient, output is large, and wages are high, are by no means solely the agricultural industries. A great range of manufactures are of this sort; and these are our most characteristic manufactures. They are the manufactures employing workmen who are alert, intelligent, and what is popularly called high-priced. They are the manufactures in which a larger output per unit of labor and capital comes from ingenious machinery, effective organization, efficient labor, nicely adjusted product. Side by side with these are others of a different type, in which the laborer is called on chiefly for the monotonous repetition of the simplest manual tasks, and in which even an ignorant man, or woman, or even child, can be easily taught the task. Here the temptation is inevitably to seek for cheap labor. The earth has been scoured to find docile, ignorant, pliable labor. which shall do for us our Helot's tasks. Inpouring immigrants by the million find work of this kind. They get wages which are lifted by the surrounding

economic forces somewhat above the level of similar wages in Europe, but are lifted by no means up to the full American range. They are in a class by themselves, cut off in large degree from the general influences of the country. Their children, indeed, commonly feel these influences. They go to the public schools, learn the American standards and ways, and struggle with more or less success to rise to a higher stratum. But this depletion of the lower ranks is more than made good by the increasing arrivals of new shoals of immigrants. Thus we have, perhaps not permanently, but as a continuing part of our present social system, a vast mass of human beings doing for low wages work that is dull, monotonous, and according to our standards ill-paid.

Now I am by no means disposed to assert that the protected industries are identical with the industries employing labor of this sort. Not a few of the protected industries call for labor of the alert and intelligent kind. Many industries which have nothing to do with protection call for the dull, weary, unskilled work. Such is the mining of anthracite coal, whose peculiar conditions have of late been so conspicuously brought into notice; such is the cotton manufacture in the South, where during the last twenty years a vein of this low-lying human material has been unexpectedly discovered and exploited. But a good share of the protected manufactures are in this class. Large parts of the textile manufactures in the Atlantic States belong here, and are in marked contrast,—to give one example,—to such an industry as the shoe manufacture. I cannot but believe that by increasing the opportunities for the utilization of labor of this sort the protective system has added to our social and political difficulties. The safe

absorption and remaking of these unskilled and uneducated masses is largely a question of degree. A certain amount we can make over; too many of them would swamp our institutions. No thinking man can view without concern the rapid increase in their numbers, or believe that it is for our social or moral advantage to add by legislative policy to the range of industries which create a demand for them.

I pass now to more difficult matters: to some phases of the controversy concerning which economists are much less in accord, and on which something is to be said on both sides. And here I will begin with two lines of reasoning that are not commonly considered together, but which seem to me to involve essentially the same question of principle. One of them is the argument against dumping; the other is the argument for the protection of agricultural products against the competition of new countries.

"Dumping" I take to mean the disposal of goods in foreign countries at less than normal price. It can take place, as a long-continued state of things, only where there is some diversion of industry from the usual conditions of competition. It may be the result of an export bounty, enabling goods to be sold in foreign countries at a lower price than at home. It may be the result of a monopoly or effective combination, which is trying to keep prices within a country above the competitive point. Such a combination may find that its whole output can not be disposed of at these prices, and may sell the surplus in a free market at anything it will fetch,—always provided it yields the minimum of what Professor Marshall happily calls "prime cost."

Now, if this sort of thing goes on indefinitely, I confess that I am unable to see why it can be thought a

source of loss to the dumped country; unless, indeed we throw over all our accepted reasoning on international trade and take the crude protectionist view *in toto.* If one country chooses to present goods to another for less than cost; or lets its industrial organization get into such condition that a monopoly can levy tribute at home, and is then enabled, or compelled by its own interests, to present foreign consumers with goods for less than cost,—why should the second country object? Is not the consequence precisely the same, so far as that other country is concerned, as if the cost of the goods had been lowered by improvements in production or transportation, or by any method whatever? Unless there is something harmful *per se* in cheap supply from foreign parts, why is this kind of cheap supply to be condemned?

The answer to this question seems to me to depend on the qualification stated above—*if this sort of thing goes on indefinitely.* Suppose it goes on for a considerable time, and yet is sure to cease sooner or later. There would then be a displacement of industry in the dumped country, with its inevitable difficulties for labor and capital; yet later, when the abnormal conditions ceased, a return of labor and capital to their former occupations, again with all the difficulties of transition. It is the temporary character of dumping that gives valid ground for trying to check it.

A striking case of this sort has always seemed to me to be that of the European export bounties on sugar, which for so long a period caused continental sugar to be dumped in Great Britain. These bounties were not established of set purpose. They grew unexpectedly, in the leading countries, out of a clumsy system of internal taxation. They imposed heavy burdens on the

exchequer, as well as on the domestic consumer, in the bounty-giving countries; and they were upheld by a senseless spirit of international jealousy. Repeated attempts to get rid of them by international conferences showed that the cheap supply to the British consumer, and the embarrassment of the West Indian planter and the British refiner, rested not on the solid basis of permanently improved production, but on the uncertain support of troublesome legislation. It might well be argued that these conditions would come to end sooner or later. The longer the end was postponed, the worse was the present dislocation of industry and the more difficult the eventual return to a settled state of things. No doubt these were not the only considerations that in fact led Great Britain, the one great dumping-ground, to serve notice that she would impose import duties equal to the bounties, unless these were stopped. Perhaps this decisive step would have been taken even if it had appeared that the bounties were to continue as a permanent factor in the sugar trade. But it is in their probably temporary character that the sober economist finds justification for the policy that led to their abolition. At all events there is tenable ground for arguing that Great Britain, in causing them to be stamped out, acted not only in the interest of the much-abused consumers of sugar on the Continent, but in the permanent interests of her own industrial organization.

The other familiar case of dumping is that of the monopoly. Here, too, it may be maintained with much show of reason that the diversion from the normal conditions of industry is but temporary. Can any country be persuaded in the long run that it is for its advantage to support or aid, by protective duties, or by any other method, a monopoly which mulcts the domestic con-

sumer and thereby is enabled to make presents to the foreigner? Yet the strength of vested interests, the curious conservatism of party feeling, persistent sophistry about giving employment to labor and turning the wheels of industry, may keep the practice going for a long period. Any measures that would bring it to an early end should be welcome alike for the country that dumps and for that into which there is dumping.[1]

I turn now to the other phase of this same question. The competition of the United States and of other newly opened countries has depressed the prices of various articles of food in Europe; has restricted, or threatened to restrict, the volume of agricultural production; and has caused an increasing drift of population to manufacturing industries. But these conditions, it is maintained, are but temporary. The new countries will not remain new. Their population grows rapidly, and their fresh lands are fast being absorbed. It is to be expected that sooner or later their numbers will be increased, and their own food supply increasingly drawn on, until they have no food for export. The countries to which this food supply had been sent, and whose industries had been adjusted on that basis, will find inevitable readjustment to

[1] No doubt in weighing the advisability of such measures, it would be necessary, and at the same time extremely difficult, to ascertain whether the dumped article really was exported at an abnormally low price. It is familiar knowledge that the Steel Corporation, for example, is selling some articles for export at less than the domestic price. But it is quite possible that the export price, while less than the domestic price, is not really below the level of normal cost. So much the worse, doubtless, for the consumer at home; but this is not a matter that concerns the foreigner, who buys the steel at no more and no less than a reasonable figure. It seems to be at least doubtful whether the foreign sales are in fact likely to be made for any considerable time at a price below the long-run cost of production. If not, the question which presents itself is the ordinary one of protection, not the peculiar one of a temporary dislocation of industry.

the old basis. First a large part of their population is transferred from agricultural to manufacturing industries, and then must be transferred back to agriculture again. Each process of transition is necessarily slow and possibly painful, and the suffering and losses outweigh the temporary benefit during the comparatively brief period of cheaper food supply. Is it not wiser to protect agriculture for awhile, and keep industry in its even and permanent course?

Here again the answer turns on the temporary nature of the situation. If it were clear that the cheaper food supplies would cease to be available after ten years, or twenty years, there would seem to be good grounds for resisting this American invasion. The longer the period over which the new conditions are likely to last, and the more uncertain their end or the stages by which their end will be reached, the weaker is the case for resistance. Now, all the indications are that the relations between new countries and old countries, as they have developed during the last half-century, will endure for a long period,—a period not to be measured by years or decades, perhaps not by generations. Many have been the books and pamphlets published during the last twenty years, foretelling that the end was near, and that the opening of new sources of supply had ceased. Yet the building of new railways and the general advance in transportation, as well as the discovery of regions not before thought available, have accentuated the present situation of the modern world, and have postponed to an indefinite future the predicted reaction. To attempt now to make provision for such an indefinite future is at the least very doubtful policy. What will be the relation, a century hence, between the old countries and the countries now new; what will then be the

sources of food supply for the civilized world; what will be the process by which the old countries fall back again to their own resources,—if indeed they do fall back,—these are questions which the statesmen of the present day had best leave to the distant successors who may eventually have to deal with them.

A curious argument, connected with this set of considerations, has been advanced by one of the most distinguished economists of our time. A revival of the more extreme phase of the Malthusian reasoning, it looks to the influence of more abundant food supplies on the growth of population and the standard of living. Briefly, the reasoning is that cheaper food will simply cause an increase of numbers, and a lowering of the standard of living. When food thereafter becomes dearer, either in occasional seasons of dearth or—as is supposed to be probable—as a permanent matter in the not distant future, there will be nothing to fall back on. The larger population which the temporary period of plenty had called out, will suffer the more when the conditions of limited supply return. This is just what Malthus maintained a century ago. But, it is also just what a century of economic and social history has disproved. I am by no means of the opinion that the century's history has disproved the general Malthusian theorem,—the tendency to pressure and the need of restraint. But the particular corollary as to the inexpediency of cheaper food seems to be quite untenable. The causes of restraint or lack of restraint in multiplication are much more complex than it assumes. Notable among them are the advance of education and intelligence, the nature of the industrial organization, the desire and opportunity to rise in the social scale, which Malthus himself believed to be the *vis medicatrix* of

the community. Where the conditions of intelligence and ambition are present, material well-being has a favorable effect of a cumulative kind: a fairly high standard of living, once set going, tends not only to maintain itself, but to rise. Something of a lift must be given before an independent upward movement can maintain itself. The general rise in the comfort of living which the leading countries have secured in the last half-century, and which has been due largely to cheaper supplies of food and materials from the new countries, has served to give the needed lift.

I turn now to that course of reasoning which has long been among the economists the most effective in favor of protection; the argument for protection to young industries. It goes by other names and uses other phrases. It is sometimes called educating or nurturing protection. In popular controversy, it takes the form of the contention that protection, while it may raise temporarily the prices of the goods protected, in the long run lowers them. Throughout, it rests on the assumption that a country does not secure without conscious effort or considerable sacrifice those industries which in the long run are most advantageous for it.

Let us consider first the probable range in the application of the principle. It is commonly stated to be applicable only to manufactured goods, not to raw materials,—including under the term "raw materials" most agricultural products. Such was the view of List, the German economist, who has given the most elaborate and perhaps the most effective statement of the argument. Indeed, it is only from this point of view that there is any strong distinction between duties on manufactures and those on raw materials. No doubt, something may be said, by way of special objection to

taxes on raw materials, that they accumulate as profits are heaped up on them in the successive stages through which the commodity passes before reaching the consumers' hands. But this makes only a difference of degree, and perhaps not a great difference of degree, between raw materials and most manufactures; whereas, so far as the young industries argument goes, there is a difference in kind. Nature has settled what sorts of raw materials a country is fitted to produce. No encouragement from protective duties, for example, can so stimulate the growth of forests in the United States as to bring us in the end cheaper timber. No such stimulus can cause the climate of the country to become better adapted for wool growing, or give it the peculiar advantages which the interior of Australia has for this form a pastoral industry; or make Louisiana as well fitted for growing cane sugar as Cuba.

Nevertheless, it must be admitted that, even so far as this special argument for protection is concerned, there may be sometimes as good reason for duties on raw materials as on manufactures. Mining operations usually involve an initial stage of experiment and uncertainty, and almost always call for a heavy investment of fixed capital. The history of the iron industry in the United States and Germany, and possibly that of the copper industry in the United States, suggest at least the possibility that a stage of artificial and expensive stimulus may be followed by an eventual attainment of developed and cheapened production. Agriculture seems to present such possibilities in less degree; pastoral industry still less; and forestry least of all.

Unlike most other parts of the controversy between free-trade and protection, the young industries arguments connects itself with few other questions of

economic theory, and is to be considered chiefly in the light of specific experience. The benefits of imports and exports, the relations of domestic and foreign industry, wages, foreign cheap labor, surplus products, over-production, dumping,—these topics at once spread over into the general field of economics. Not only do they thus enlarge, but they can be disposed of chiefly by that mode of general reasoning from comparatively simple premises which still remain the most valuable tool at the disposal of the economist. But whether protection to young industries will or will not have good effects, is simply a question of probability for the given case. Precisely the opposite result from protection has not infrequently been discovered or supposed to be discovered. It has been said that, so far from leading to improvements and eventual cheapening, it leads to the retention of antiquated and inefficient wages of production and so to continued enhancement of prices. There is good ground for believing that the long continued protective régime in France during the first half of the nineteenth century had ill results of this kind. One of our ardent free-traders, the late David A. Wells, repeatedly maintained that the same consequences had appeared in the United States. His conclusion may have been justified by what happened during the period of abnormal industrial conditions that followed the Civil War; yet I doubt whether the experience of the United States as a whole supports it. The truth is that either result may ensue. Among an active and enterprising people the diversion of industry into new channels may lead to progress, improvement, and eventual gain; whereas in a timid and stagnant people the stimulus of competition from abroad may be necessary to rouse them to their best ef-

forts. The problem of protection to young industries thus offers an especial field for the inductive and historical method in its stricter sense,—the patient investigation of particular cases, and the possible final construction of an edifice of truth, by the slow gathering of fragments of knowledge.

For the pnrpose of aiding legislation in our own day, however, investigation of this sort must be confined to modern experience; the experience, say, of the nineteenth century. Investigations as to earlier periods, as to the industrial regime of the Middle Ages, the system of Colbert, the early protective policy of Great Britain, the paternalism of the rulers of Brandenburg and Prussia, will teach us little for the problems of the present. The value and interest of such investigatlons are not to be denied. We have shed certain notions of the earlier economists as to the necessary harmfulness or futility of the conscious direction of industry, and know that we have still much to learn about the causes of progress in the past. But modern conditions differ radically from those preceding the nineteenth century, and have changed fundamentally in the last fifty years. Technical education has been so improved and diffused as to make immensely easier the adoption anywhere of a new process. All the means of communicating knowledge, from the printing press to the telegraph, serve to spread rapidly information about changes in the arts. Restrictions on the sale or export of maehinery have disappeared. Capital is abundant, and is constantly and eagerly seeking fresh employment. There is no need of further enumeration; it is obvious that the conditions are very different from those that had to be faced by the undertaker of the seventeenth and eighteenth century, even of the first half of the nineteenth. Whatever we

learn of his troubles and obstacles can tell us little as to the extent to which his successor in modern times needs the prop of legislative aid in new ventures.

Looking now at modern experience in protection to young industries, what result do we find? The answer, alas, is not certain. Sometimes we seem to find a degree of success, sometimes of failure. The besetting difficulty of all purely inductive inquiry in the doings of man is ever present. We can not isolate causes. We can not apply protection to a country, and make sure that everything else remains unchanged. A protective duty may be followed by an increase of domestic production, by a new and independent industry, by an eventual benefit to the community in the way of cheaper commodities; but the question always will remain whether other causes have been at work, and whether the same result would not have ensued without the tariff in favor of the young industry.

Contrast the history of Germany and of France. For the whole period up to 1860, France had a restrictive regime of the greatest severity. Yet I have seen no evidence adduced that, during that period of rapid industrial advance in the world at large, any gain was secured by France in the way of successfully establishing an industry that was able to hold its own without aid. In Germany, on the other hand, the trend of opinion among competent observers seems to be that, at least during the second third of the century, the tariff policy of the Zollverein, though much more moderate than that of France during the same period, nurtured German manufacture to advantage. The establishment of free trade within Germany by this beneficent customs union opened great possibilities of internal growth, which were

more easily turned into realities by a period of shelter from foreign, especially English, competition. During the last third of the century, Germany's industrial growth has been one of the remarkable phenomena of our time; but it began under the moderate protectionist regime of the Zollverein, and, whether or no promoted also by the accentuated protection that began in 1879, has certainly been much affected by the other factors also, to some of which I shall presently refer. In the United States we find similarly conflicting evidence. Some researches of my own have led me to believe that, on the whole, the first growth of manufactures in this country, in the early years of the nineteenth century, was advantageously promoted by restrictions on competing imports. As we come nearer to the present time, the case in favor of protection becomes more and more doubtful. In the policy of extreme and all-embracing protection which has been gradually built up since the Civil War, it would have been surprising indeed if we had not scored a few hits. Where you send innumerable shots promiscuously in a given direction, some few of them are likely to hit the mark. But specific and unbiassed inquiry on those points is sadly needed, and offers a promising opportunity for scholarly investigation. It is obvious that there has been not only an enormous growth of manufacturing industry, but a great improvement in methods of production and a growing independence of foreign competition. How far this gain has been carried to the point which proves that the community is now better off than it would be if it had depended on foreign supply; and how far such a gain, further, may have been due to causes quite independent of encouragement in the way of protection,—these are questions which certainly can not be disposed

of without much painstaking and unbiased inquiry, and for which even such inquiry very likely would yield no clear-cut answer.

Our conclusions as to the general validity of the argument for protection to young industries thus have an uncertain ring. Yet it must be added that while such protection can not be proved useless, there is at least one striking phenomenon which proves it to be not indispensable. That phenomenon is found in our own country. Here we have seen, under a regime of the most absolute free trade, the gradual and steady growth of manufactures in communities that a few decades ago were exclusively agricultural. In our Southern states, the cotton manufacture has grown and prospered in face of the competition of the established industry of New England. It found in the South advantages of situation, and a labor supply which proved amenable to profitable exploitation. But these advantages could not be utilized without an initial period of experiment and uncertainty, during which the older industry had all the advantages against which protection is supposed to be necessary. Even more instructive is the transformation of the great Central region,—the states north of the Ohio and east of the Mississippi. Here we have seen, under a regime of complete free trade within the country, the steady growth of manufactures. Where the field was favorahle for a new industry, whether from rich natural resources, from advantage in location, or from ingenuity and enterprise among the leaders of industry and the rank and file, there the industry has expanded and flourished, unchecked by the competing establishments of the older states. Some of the industries that so sprang up in the Central region have been of the kind that felt the stimulus of protection

against international competition. Some have been quite independent of this stimulus, the question being not whether they would spring up within the country, but where within the country,—whether along the seaboard or in the interior. In either case, the full competition of the older regions of our own country has been felt by the newer regions. The diversification of the newer regions has nevertheless proceeded smoothly and steadily. That diversification continues and will continue, notwithstanding the most absolute free trade throughout our own borders. No artificial fostering as against the manufactures of the East has been possible: though, if possible, it would doubtless have been asked. Yet the growth of manufactures in the Central region has been perhaps the most striking change in the industrial structure of the country during the last generation.

These familiar facts must make us hesitate before ascribing to legislative interposition too much effect on the development of new industries or on the general course of economic progress. I have already referred to the difficulty of disentangling the complex forces that bear on economic progress, and will not pretend to offer anything in the way of proof for what I have further to offer as to the relative weight of different factors. Briefly stated, my belief is that the general structure and spirit of the social body are much more important than specific encouragement to this or that industry. Any detailed statement of the grounds of this opinion would carry us into fields much more speculative than those which have been considered in the preceding pages; and it must suffice to illustrate rather than support it from a brief conisderation of some aspects of social and economic history.

Consider first the case of England. Clearly several causes contributed to the remarkable economic advance of that country during the eighteenth and nineteenth centuries. Her insular position preserved her from the wars which devastated the Continent. Her indented coast cheapened internal transportation from an early date. Her great mineral resources supplied the foundations of the modern workshop. The protective system of older days is supposed to have nurtured her industries until they became independent,—with how great effect, is the debatable question. But most important of all has been the atmosphere of freedom and the clear avenue to glittering success which has been open to all who were capable and strong. Political freedom came first, and soon was supplemented by industrial freedom. Hence the all-pervading spirit of ambition, resource, enterprise. To this spirit a stimulus of incalcuable strength has been given by the curious development of the British social hierarchy. Nowhere has the aristocracy held its place so strongly in the esteem of the rest of the community, and nowhere has admission to that aristocracy been more free to the successful. The rich merchant, manufacturer, banker, mounts readily on the social ladder. Given plenty of riches, a little time, and he or his descendants become associates of peers, very likely themselves become peers. In the eighteenth century Adam Smith, remarking on the differences between England and France, mentioned France as a country where trade is in disgrace, and England as one where it is highly respected. The materialism of the British aristocracy and the snobbishness of British society have long been topics for the satirist. But materialism and snobbishness have enlisted the strongest of social

motives, the undying love of distinction, in the direction of economic initiative and varied development.

Factors of the same kind have been powerful in our own country. Every career and every degree of success have been open to all; and open not only under the law, but under the mobile conditions of a thoroughly democratic community. The most obvious avenue to distinction has been the attainment of wealth; a state of things by no means of unmixed advantage, but with unmistakable effect on industrial progress. Large enterprises, whether in trade, manufactures, or transportation, have long enlisted the most capable intellects of the country. Every opportunity for the conduct of business on a large scale has been eagerly scanned with keen eyes by the captains of industry. Add to this, the early development of a high degree of mechanical skill and ingenuity, and natural resources which are varied and abundant to an unusual degree, and you have conditions under which legislative stimulus is at best of secondary importance. The evidence seems to me conclusive that the United States, under any tariff system, would have become a country with varied industries and with highly developed manufactures. The protective duties have only affected the degree and the direction of that development.

Still another factor deserves to be noted. Not only the spirit of freedom and enterprise within the community has its effect, but that spirit with reference to other communities also. The political position of a country and its martial success seem to have a reflex effect on the industrial success of its citizens in time of peace.

Here the recent development of Germany is apposite. Her industrial advance during the last thirty years is one of the striking phenomena of our time, and leads

naturally to speculation as to its causes. No doubt these causes are varied, as in all such cases. The thorough organization of popular education and of scientific education is one cause. The stimulating effect of free trade within the country, as established by the Zollverein since 1834, is another: though this gain had been enjoyed by France throughout the nineteenth century, and by England for centuries before. Much is due to the whole change in the political and social atmosphere which came with the crumbling of petty absolutism, and which was consummated with the foundation of the German Empire. But to all this must be added the new spirit which came over the country after the war of 1870. Germany emerged from the conflict with a new sense of strength and confidence. The new feeling communicated itself to the field of peaceful industry. Vigor, enterprise, and boldness showed themselves. Large enterprises in new fields were launched and successfully conducted, and great captains of industry came to the fore. A spirit of conquest in all directions seems to have spread through the people, bred or at least nurtured by the great military conquest of the Franco-German war.

Is it fanciful to suppose that consequences of the same sort have appeared in other countries also after victorious wars? England emerged from the Napoleonic wars with a great feeling of pride and power. She alone had never yielded to the great conqueror. The period which followed was that of her most sure and rapid economic advance. She then established the hegemony in the industry of the civilized world which she maintained through the century. The northern part of the United States, after the Civil War, felt a similar impulse. That struggle had been on a greater scale than was dreamed of at the outset, and its outcome

proved the existence of unexpected power and resource. It is probably no accident that the ensuing years showed a spirit of daring in industry, and sudden and successful activity in commercial enterprises.

No one is more opposed than I am to all that goes with war and militarism. It is with reluctance that I bring myself to admit that the same spirit which leads to success in war, may also lead to success in the arts of peace. Yet so it seems to be. Men being what they are, nothing rouses them so thoroughly as fighting. The temper which then pervades a community, communicates itself by imitation and emulation, and shows itself in all the manifestations of its activity. A great war lifts the minds of men to large undertakings, and takes its place with other factors in stimulating the full exercise of the powers of every individual.

We are in danger of straying far from our subject. Yet the digressions to which the argument for protection to young industries has led may serve to enforce one conclusion to which the consideration of the whole free-trade controversy must lead the patient inquirer: namely, that the effects of tariff legislation are commonly much over-estimated. Difficult as it may be to separate the causes of industrial growth and to measure their relative weight, it seems to me clear that the factors are many and various. In any larger survey, the effects ascribable to a protective system, either for particular industries or for general economic growth, are among the subordinate phenomena, and far from having that transcendant importance so often proclaimed by its ardent advocates.

I turn now to an opinion, or point of view, to which reference was made in the opening paragraphs of this paper: the opinion that after all on our subject there is

no fundamental principle. A set of writers, especially among contemporary German economists, take what purports to be a severely judicial attitude. In their view there is no established theory, and no reason for ascribing greater validity to the doctrine of free-trade than to that of protection. It is all a matter of advantage or disadvantage in the given case. Some countries may prove on inquiry to need free-trade, some protection. A policy of opportunism is the only sensible one, and the controversies about theories of international exchange turn on barren abstractions, which do not touch the concrete facts of industry.

8. For myself, I confess to little patience with this attitude. It assumes to be large-minded and judicial, and a certain tinge of contempt for the old fashioned theorists often goes with it. Yet in truth it rests, I can not but suspect, on inability or unwillingness to follow the threads of intricate reasoning. No doubt it is true that the concrete circumstances of a country must be examined and considered before we apply to it a given policy. But it is none the less essential to make up our minds as to the principles on which our policy should rest. No doubt it is especially true that, in weighing the chance of the advantageous application of protection to young industries, the actual conditions of each case and the prospects of success should be carefully studied. But it is none the less necessary to reflect what are the foundations and limitations of such protection, and what are the real tests of success. On all such questions of principle, we often find a sad lack of clear-cut reasoning among our German colleagues. This defect does not show itself solely in the protective controversy. It appears in almost every part of the economic field, as soon as the more difficult problems

are touched. In the theory of value, of distribution, of prices and the value of money, as well as in that of international trade, there is in many current manuals and text-books a pseudo-judicial attitude, which admits some merit in this position as well as in its opposite, opines that such a view must indeed be considered but must not be pressed too far, and such further double-facing expressions, which end in leaving the reader quite in the dark as to the author's conclusions as to the heart of the matter in hand.

It is easy to account for this stage of thought, especially among the writers of the second rank. In many directions economic theory is being re-fashioned, and on many topics there is not yet a consensus of opinion. At least, there does not appear to be such a consensus; though the differences among economic thinkers on the large questions of principle are much less fundamental than they are sometimes made to appear. Yet it is not to be denied that on some deep-reaching topics, especially in the theory of distribution, economic theory is now in a stage of transition. As it happens, however, there has been least attempt at change, and there is least occasion for change, in the theory of international trade. On that part of the subject, the edifice of which the foundation was laid by Adam Smith and his contemporaries, and which was further built up by Ricardo, Senior, and the younger Mill, remains substantially as it was put together by these ancient worthies. Something has indeed been added by recent writers; yet nothing that calls for a remodelling of the old structure. On the nature of international trade, on its peculiarities, its working machinery in the foreign exchanges and the flow of specie, its connection with the drift of labor and capital to different industries, its bearing on the demand

for labor, and not least the effects of restrictions in the way of taxes,—on all these topics the old doctrines have never been seriously shaken. Qualifications of one sort and another,—deviations from the regime of freedom such as Adam Smith himself conspicuously enumerated, —contingencies under which commercial blows may be so planted as to convert an opponent into an ally—these have long been admitted. Certain refined and ingenious trains of reasoning have been brought forward, too, of late years, regarding the effects of protective duties on the distribution of wealth and on the ultimate elements of social well-being. They connect themselves with some of the more recent speculations in economic theory at large. Like these, they have had no effect, as yet at least, outside the small fringe of scholars and teachers, and no very marked effect even within that fringe. A discussion of them would carry this address far beyond the permissible limits. At best, they suggest only still further qualifications and still other possible exceptions, and they leave intact the core of the classic theory of international trade. That theory, in its essentials, holds its own without a serious rival.

This being the case among the thinkers, the question naturally arises as to how it happens that the opposite theory, or at least the policy based on a very different theory, holds its own in the field of legislation. Some consideration, however brief, must be given to this question in any inquiry as to the present position of the doctrine of free trade.

There is no one explanation of the strong hold which protection now has, and bids fair for some time to maintain. The effectiveness of its appeal to the every-day man has already been noted. The arguments about employment, labor, domestic industry, home markets

and foreign markets, rejected though they have been in all respectable economic writing, emerge again and again. They will not down, and create a set of prepossessions favorable to the adoption of protectionist legislation. But in European countries (for the moment, I have not the United States in mind) its actual adoption has been immensely promoted by two other factors. One is the competition of new countries in agricultural products. The other is the growth and intensification of national feeling.

The effect of the competition of new countries is obvious enough. With the cheapening of transportation, not only England, but France, Germany, and the other countries of Western Europe, have been invaded by supplies of cheaper food and raw materials. The agricultural classes have felt the pressure of foreign competition. Formerly indifferent or even hostile to high tariffs, they have now been led to join in the demand for protection against cheaper foreign supplies. In England the agricultural interest has always been restive under free trade. In France and Germany, with the new democratic conditions, its influence now constitutes a strong political force against the application of that doctrine.

Not less important, however, is the sentiment of nationality and its unfortunate counterpart, to the sentiment against foreigners. Of the ennobling and beneficent effect of national feeling I need not here speak. Its less favorable aspects unfortunately are most conspicuous in relation to our present subject. Cobden and the other English free-traders of half-a-century ago looked forward to a coming era of peace among nations, strengthened by the links of friendly exchange and mutual benefit. How sadly have these hopes been disappointed? Militarism is no less strong than it was,

even stronger; and every European nation habitually holds itself in readiness for war.

Even the sober economist, unmoved by sentiment, and looking solely to the direct and traceable consequences of this state of things, must admit that here is a situation that does not fit into the free trade ideal. Great Britain, for example, depends for feeding her people on foreign supplies; and it is an inevitable consequence, however regrettable a one, that she must have a powerfnl navy as security against starvation in case of war. No doubt the balance of material gain is in her case clearly in favor of free trade: it is cheaper to have a navy, even a huge and expensive one, than it would be to support her population at home. But, as international relations now stand, there exists this expense to be offset against the gain. In Germany at the present time the same set of persons who advocate the development of Germany as an exporting country and a "world-power" demand a great navy. Oddly enough these same persons are protectionists also. But if a navy is needful to safeguard exports, it is no less needful for the imports which must also come.

It is but another phase of the same drawback against the gain from international trade, that it is liable to interruption. A war between the great countries, such as is always possible and often seems imminent, would greatly hamper foreign trade, conceivably destroy it. The greater the previous extension of trade, the more complete the overturn of commerce; and he who looks on war as sooner or later inevitable, and perhaps as not unwelcome, is not loth to have the industries of his country as self-contained and as self-dependent as possible.

The national and militant feeling, however, has effects on public opinion far beyond such deliberate weighings of gain or loss under war and peace. It rouses a whole train of sentiments which run against trade with other countries. It fosters international rivalry in every sphere. Deliberate and accurate weighing of the benefits of foreign trade, such as it is the business of the economist to undertake, probably determines the opinions of a very small circle indeed. The state of mind of the immense majority is settled by their general feelings and prepossessions. These are in favor of the native country and against foreigners; in favor of home markets and home products, and against foreign competition. Add to this the strong appeal which protectionist reasoning makes to the instinctive prejudices and the inherent selfishness of the every-day man, and you have an explanation of its continued hold.

In the United States the situation is different from that in European countries. Here we have in recent times no industrial invasion from foreigners; we are ourselves the invaders. The feeling of nationalism is doubtless strong, and has promoted protection effectively, but the peculiar fervor which militarism adds to it we have not experienced, unless it be under the conditions of the last few years. The maintenance of our protective system—I will not say of any such system, but of the extreme and intolerant protection which we have developed—seems to be explicable chiefly on historical grounds. Certainly its beginning is not to be ascribed to any deliberate choice. The system as it now stands goes back to the Civil War, and is the unexpected outcome of the heavy duties then suddenly imposed. It has maintained itself chiefly by the effects of custom

and iteration. The industries of the country have become habituated to it; and what is no less important, public feeling has become habituated to it. As in England for a generation, free trade was the accepted doctrine from the sheer force of use and habit, so in the United States protection has been the accepted doctrine. And, needless to say. just as continued material progress strengthened the hold of the accepted system in England, so it has strengthened the hold of the opposite system in the United States. The appeal to let well enough alone is always effective. The economic critic may see in other directions abundant explanation of our well-being, and may say that a country with such resources, such institutions, and such a population would have prospered under any commercial policy. But the fact of prosperity tells powerfully in favor of the legislation that in fact has been followed. It is not probable that any substantial change of policy will be made until this correspondence has been broken. When evil days come, as sooner or later come they doubtless will, then placid acquiescence in the existing order of things will no longer bolster up the protective system, and the time will be more propitious for a deliberate overhauling of accepted notions and beliefs.

Thus, in conclusion, it may be said that the fundamental principle of free trade has been little shaken by all the discussion and all the untoward events of the past half-century. But its application is not so easy and simple as was thought by the economists of half-a-century ago. A principle can be stated in clear-cut terms, and an answer of yes or no can be given with regard to it. The mode of its application, however, raises questions of *pro* and *con*, and often involves a

balancing of conflicting principles. The question of principle is none the less important, and important for practical purposes. He who is convinced that the use of alcoholic liquors is overwhelmingly harmful may hesitate, in the world as it is, whether to favor absolute prohibition, or government management, or private trade under license and control. Yet, if he has the question of principle clearly settled in his mind, he will combat steadfastly popular errors about healthful effects of alcohol, and will welcome every promising device towards checking its use. He who believes that war is evil and wasteful, and militarism preponderantly bad in its spirit and effect, may regretfully admit that armies and navies must be maintained, and much labor misapplied in the making and using of instruments of destruction. Yet he will oppose every unnecessary increase of armament, avoid every occasion for rousing others to rivalry in warlike preparation, and welcome every opportunity for the peaceful settlement of disputes between nations. So he who believes that international trade is but one form, and no peculiar form, of the division of labor, and that, like all division of labor, it is preponderantly beneficial in its effects, may admit that its application in a given country raises problems not to be disposed of by mere appeal to this principle alone. Some of the qualifications have been considered in what has preceded; and others will readily occur to you, such as the demands of public revenue, a needful regard for vested interests, the political and social effects of trade within the country and without. But in considering any question of concrete commercial policy, it is necessary first to know whether a restriction on foreign trade is presumably a cause of gain or loss. Is a protective tariff something to be regretted, for which an offset is to be sought in

in the way of advantage in other directions, or something which in itself brings an advantage? The essence of the doctrine of free trade is that *prima facie* international trade brings a gain, and that restrictions on it presumably bring a loss. Departure from this principle, though by no means impossible of justification, need to prove their case; and if made in view of the pressure of opposing principles, they are matter for regret. In this sense, the doctrine of free trade, however widely rejected in the world of politics, holds its own in the sphere of the intellect.

A THEORY OF PRICES

J. LAURENCE LAUGHLIN

§ 1. Assuming that the problem of the *theory of prices* is the same problem as that of the *value of money*, we are at once required to explain that by value of money we mean the *exchange value* of money. With this understanding, it is evident that the level of prices is only a statement of the exchange value of money in terms of goods in general. A fall, for example, in the value of money necessarily carries with it the fact of a rise in the prices of goods. In the relation of a particular commodity to money, price is the quantity of the money, for which it will exchange. If we are speaking of gold prices, the price of a single commodity is the quantity of gold for which it will exchange. One cannot think of price except as a ratio.[1]

The theory of prices, therefore, is clearly a question of exchange value. Consequently, its solution does not appear to me to be involved in the solution of the fundamental theories of value, such as the case of marginal utility versus cost of production. If value be regarded as an unrelated magnitude of utility, or as subjective importance, we should still have the problem of exchange value. Whatever may be the various theories suggested as regulating the value of gold, or of a given commodity,

[1] It is impossible for me to understand Professor Kinley's idea of value as "the quantity of marginal utility of an economic good"; and that the unit of value may be "the amount of value in a chosen quantity of any article." (Money, p. 62). The qualities of an article inhere in it; its ultility arises from a relationship between these qualities and the needs of men; and these matters affect the exchange value of an article. But this gives us no explanation of exchange value.

we cannot escape the fact that exchange value between gold and goods is the problem of the value of money. And there seems to be a general concurrence in this simple proposition.[1] I am certainly in general agreement with most economists at this point.

§ 2. When we mention the value of money, however, it is also necessary to know what we mean by "money." At this point we must, as investigators, be willing frankly to admit that there is no agreement whatever as to the usage of the term "money." Even the same writer will use it in different senses. To some, as Nicholson, for instance, money—so far as it concerns prices—is gold and nothing else; to others, like Walker, it includes also government paper and bank notes; to still others, it includes all the forms of credit such as bills of exchange and checks.

It is evident enough that progress can be made only by some definite conceptions of the functions of money. In my opinion the distinction between the standard commodity in which prices are expressed, and the media of exchange by which goods are in fact transferred conveniently, is essential to any insight into the real problem of prices. This distinction is simple enough, but it is far-reaching in its influence on the price question. For instance, we, in the United States, have the gold standard; and, by our definition of price, the price of any commodity is the quantity of gold for which it will exchange. If this be so, the elements of

[1] J. S. Mill: Price is "the quantity of money for which it will exchange," (Bk. III, Ch. 1, § 1). A. T. Hadley: "A price, in the commercial sense of the word, may be defined as the quantity of money for which the right to an article or service is exchanged." (Economics: p. 72). *Cf.* also Seager: Political Economy, p. 51; W. A. Scott: Money and Banking, p. 34, and many others.

the analysis of price-changes are to be found, very evidently, in the relative values of goods and gold. The exchange value being not an absolute but a relative thing, we must, in a study of the price problem, deal with all the forces which can influence the ratio between goods and gold. To deal only with those affecting gold, or the money side of the ratio, to discuss only the demand for gold and the supply of it, would be inadequate and unscientific. To assign the causes of changes of price chiefly to variations in the quantity of money is not only one-sided, it is also ambiguous; because "money" is only one side of the price-ratio, and to those taking this point of view "money" may not mean only the standard.

To this point, obviously, everything is simple; but here an honest inquirer rightly may suggest that there may be forces working on the value of gold, and thus on prices caused by the volume of other forms of money than gold, such as government paper, bank notes, and forms of credit. In the evolution of monetary conveniences, society has constantly aimed at finding safe media of exchange to avoid the use of the valuable standard, and this fully accounts for the creation centuries ago of such institutions as the banks of Venice and Amsterdam; for the invention of the bill of exchange; for bank notes; and more lately, for checks and deposits and clearing houses. In the main, the increase or decrease in the volume of the media of exchange has an effect on the value of gold, and thus on prices only in so far as it touches the demand for gold. As a rule the evolution of these various media of exchange has saved gold from being used as a medium, and relieved it of demand as transactions have increased. The influence

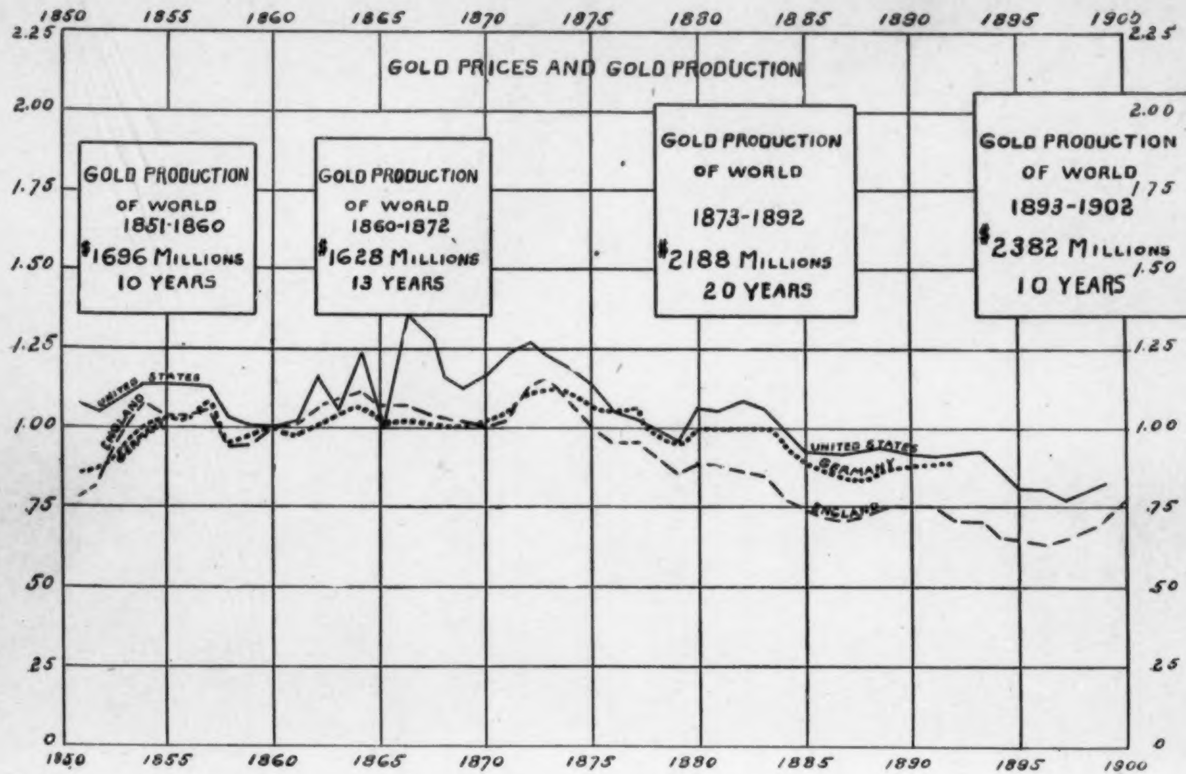
upon prices of the quantity of the "circulation," when that word means media of exchange, therefore, is referable to the class of forces affecting the demand for the standard commodity. And demand for gold, or a standard, is but one of several sets of forces which influence the level of prices, or the value of "money." Yet it must be remembered, while sharply distinguishing between the function as a standard and that as a medium of exchange, the same article chosen as the standard, like gold, may also be used as a medium of exchange. Although, as in the case of gold, the quantity of this last use may not be large, still the principles of price in operation are acting not the less distinctly upon that part which is standard differently from that part which is medium of exchange.

§ 3. Obviously the supply of the standard commodity must be one force affecting its value, and thereby the level of prices. Yet the operation of supply on the value of an imperishable commodity, like gold or silver, is not the same in different epochs. To change its value the new supply must be large relatively to the total stock; consequently as production goes on, the total stock begins to assume an amount quite out of proportion to the new supplies from year to year. Thus changes in the annual product have less and less practical effect upon the value of the standard—certainly if we have gold in mind—and hence upon prices. If changes in new supply have an effect, which theoretically always exists, that effect to-day will be very slow and gradual in its results on the level of prices.

The supply, of course, cannot be considered by itself; it must be taken in connection with demand. As we all know, an increased or diminished demand becomes

effective on the value provided the stock is of such a quantity that the force of demand is appreciable on the total stock. If, then, the existing stock is very great, the effect of ordinary changes in demand, or even some considerable increase in demand, could produce little change in the value of the world's total supply. Hence, variations in the level of prices due to the fluctuations in demand for a standard, like gold, would also be very gradual and very long in producing evident results in general prices.

§ 4. A frequent error in past discussions of prices has arisen from the careless neglect of the pivotal and elementary nature of price. The price of any one article is the quantity of the standard for which it will exchange. We are studying a case of exchange value; and the price obviously can be modified by anything which raises or lowers goods relatively to the standard. If the standard were supposed constant, any one knows that changes of price could be brought about by changes in the expenses of production of goods. Put a tax on goods and it is expected in general that their prices will rise; introduce wonderful new inventions which save labor, and without question the price of the goods thus affected will fall. In neither case is it possible to refer the change in prices to changes in the demand and supply of "money" (however it may be defined). In reality, since price is the relation between goods and a metallic standard, like gold, and since the enormous production of gold has created a very great total stock, any sudden or extreme fluctuations in prices, in any few years, could not be assigned to causes operating on the money-standard, but to those operating on goods themselves.


GOLD PRICES AND GOLD PRODUCTION
GOLD PRODUCTION OF WORLD 1851-1860 $1696 MILLIONS 10 YEARS
GOLD PRODUCTION OF WORLD 1860-1872 $1628 MILLIONS 13 YEARS
GOLD PRODUCTION OF WORLD 1873-1892 $2188 MILLIONS 20 YEARS
GOLD PRODUCTION OF WORLD 1893-1902 $2382 MILLIONS 10 YEARS
UNITED STATES
GERMANY
ENGLAND
1850 1855 1860 1865 1870 1875 1880 1885 1890 1895 1900
2.25 2.00 1.75 1.50 1.25 1.00 .75 .50 .25 0

Hence the active causes working on the level of prices in the real world of to-day are not to be sought by confining ourselves to the one side of "money" in the exchange ratio. The general level of prices is the resultant of the two sets of forces acting both on the standard and on goods in general. The definite outcome can be known only after an examination of the relative strength of the various counteracting, or assisting, forces on both sides of the ratio. For instance, in the last thirty years there has been an unexampled progress of the arts, which has reduced the outlay in producing nearly every article of our daily consumption. In the same time there has been an unparalleled gain in the yield of gold. The total stock of gold has been at least trebled, if not quadrupled. There has been some increased demand from countries adopting a gold standard, but in no proportion to the increased supply. At present only about one-half of the total stock of gold is used in the currencies of the world. Therefore, gold ought to have fallen in value. Relatively to a day's labor it has fallen. On the other hand, the marvellous achievements of invention and discovery, have in general lowered the cost of obtaining a given unit of goods (*i.e.*, a yard, a ton, etc.) in such a phenomenal way that in the race for cheapness of production goods have outstripped gold. This outcome is the resultant of the several forces acting on the general price-level during the last thirty years. As compared with prices about 1879, the general level of prices to-day is about 20 per cent. lower. And I am confident this fall cannot be ascribed to any scarcity of gold, or of "money" in any form.[1] The facts may be seen at a glance in the accompanying diagram.

§ 5. This analysis of price, and the consequent theory of prices goes with the insistence upon the fundamental nature of exchange value, and upon the definition of price. Clearly enough, it ignores some preconceptions which many of us have imbibed from all our earlier studies in economics. Sometimes I have been wrongly classed as a rigid Ricardian. Strangely enough for this classification, the improvement of our monetary theory obliges us, in my opinion, to depart from some of the accepted propositions of Ricardo. He has led many followers to put too much emphasis upon the effect of the quantity of money on the level of prices.

At this point let me insist that I do not remove "the quantity of money" from the forces which have an influence on prices. Full and sufficient emphasis has been given the theoretical effect of an increase in the supply of the standard commodity upon its value, and thus upon prices. Likewise, the effect of changes in the volume of media of exchange upon the value of the standard has been considered. But I am quite aware that some may believe that the quantity of the media of exchange has a direct effect on prices in other ways, by being offered for goods as purchasing power; or that, with increasing transactions, the lack of media of exchange may cause a fall of prices. It is exactly on this point that some explanation of the application of my theory of prices may be permitted.

§ 6. Please remember that I am asked to outline a vast subject like a theory of prices in thirty minutes, and that I cannot always give to each proposition its proper limitations. Yet I wish to insist, first of all, upon the idea that the valuation of goods, or the deter-

mination of their price in some standard, is as a rule the outcome of conditions antecedent to the formal act of exchange in the market for any form of money. The offer of a certain amount of some media of exchange for goods merely records the antecedent price-making process. The media of exchange come into play after the price-making process, and not as a part of that process. In the main, the media of exchange are a consequence, not a cause, of the influences determining prices. All the elements touching the acquisition (materials, labor, transportation, etc.) of an article; the intensity and nature of the demand for it from consumers; the influence of monopoly conditions—all these are in constant operation in determining the quantity of gold for which the article will be bought and sold. After these forces have done their work, and a price adjusted by these forces has been fixed in the markets, the goods thus valued, or expressed for convenience in terms of a standard, are actually exchanged (or paid for) by some medium of exchange, which, in these days, is seldom the standard commodity. The service rendered by the medium of exchange is purely one of convenience. The seller receives for the price, previously agreed upon, some means of payment (notes, checks, drafts, etc.) related to the standard indirectly by some test of solvency not material to the price-making process here under discussion. In most cases, such as selling wheat, or cattle, or wholesale goods, the media of exchange arises out of, and, as a consequence of, a discount based on the actual transaction. In these matters, a medium of exchange is provided by the banks in exact proportion to the sum of the value of the goods. As a matter of course, the quantity of the media of exchange must be drawn for sums equal to the transac-

tions, as expressed in dollars, or in terms of the standard. What should be kept in mind, however, is that in this whole process the "money," *i.e.*, the media of exchange needed to perform the transactions, is not a factor in fixing the price per unit of goods. What buyer or seller of wheat or cattle is influenced in fixing the price of his goods by calculations as to the total supply of money in the country, as compared with the work to be done?

§ 7. Yet to many minds the amount of a man's purchasing power, which he can offer for goods, and which consequently affects the prices of those goods, is the quantity of "money" which he can offer. In this way it is sometimes assumed that the quantity of "money" put into circulation is synonymous with the demand for goods in general; if the quantity of "money" is reduced the demand for goods is reduced, and *vice versa*. Therefore, it is argued, the quantity of money in circulation is a direct factor in fixing the level of prices.

To my mind this is a superficial way of looking at the price-making process. If we hark back to simple, fundamental forces, we ought not to go astray on this matter. In the first place, because all goods and property are conveniently expressed in dollars, or in the gold standard, we are apt to think of money, instead of goods, as the primary factor in trading operations. In the essentials of production and consumption, goods are the primary thing, while money is only a secondary or incidental thing, introduced solely as a convenience and subsidiary to the main operations of satisfying economic wants. In the next place, a man's purchasing power, in any sense in which he can have a vital influence on the prices of things he desires, is measured not by the

amount of money he has, but by the amount of his wealth; or, to put it more exactly, by that part of his wealth which consists of cash and of immediately saleable goods. Since immediately saleable goods are always a basis of legitimate discounts, it amounts to saying that a man's purchasing power is limited by the amount of his cash, plus his credit.

When we mention this conception of a theory of "purchasing power," which to some persons forms the demand for goods in general, we are at once introduced into the subject of demand for and supply of goods. In short, what is demand for goods? That ought to be a simple question; but it is not, if demand for goods is made synonymous with the volume of those instruments variously defined as "money." In case of particular demand and supply, a fluctuation in demand may cause a change in the market price of the one commodity in consideration. That is one of the ways by which readjustments of the values of commodities relatively to each other may take place.[1] Or an increase in expenses of production, or the operations of monopoly, might change the price in the face of a persistent demand. On the other hand, in the case of a general demand and supply, we all know as an economic commonplace that they are only different ways of looking at the same total mass of goods: an increase in the general supply of goods is obviously an increase in the general demand for goods. Such operations do not act to change the level of prices, or the relation of units of these goods to a standard commodity, such as gold. Ranchman A may go on

[1] And a number of changes of this kind in several groups of goods, under a speculative influence, may theoretically lift the level of prices and so change the value of gold; but this would be temporary and due to abnormal conditions.

increasing the number of cattle in his herd, and farmer B may go on increasing the yield of wheat on his lands, but the mere increase of cattle, or of wheat, does not necessarily lower the price of cattle or wheat. To explain a particular price we must also deal with the actual demand for cattle, or wheat—arising from those who have immediately saleable goods or cash—as compared with the increasing supply. Our fine-spun theories are often held up by a sharp glance at well-known facts. In the last few decades we have witnessed a prodigious addition to the stock of saleable goods in our markets; the total productivity of our capital and labor has been marvellously increased; and consequently each unit, in the large total output of units of goods: can be sold at a lower price than before. These are gold prices, and yet no one can for a moment ascribe this fall to a scarcity of gold.

At this point, however, reference may be made to some great new production of gold, such as that after 1850, and it may be argued that this increase in gold caused a rise of prices.[1] To this contention let me say that new wealth of any kind—new gold, new wheat, or new cattle—add to man's purchasing power; and, apart from the effect on the world-value of gold of a new supply of gold sufficient to disturb the total existing stock, new wheat ought, according to that theory, to raise the

[1] In 1850 and thereafter the new supply of gold was large relatively to the existing stock, and the value of the standard commodity must have fallen, with a consequent effect of a tendency to higher prices, which was doubtless exaggerated by speculation.

But, in the last fifteen years, the unexampled increase in the production of gold has not perceptibly influenced prices, owing to the already large accumulations in the total stock. These later events show unmistakably that an enormous increase in the stock of gold can take place without directly influencing prices. See the diagram opposite page 71.

general price-level, because of increased "purchasing power," just as much as a similar sum of gold. Keeping in mind that we are here concerned only with the idea that "purchasing power" is the form by which prices in general are affected, we may see that increase of wealth in any form ought to increase purchasing power, and thus raise prices; but we all know it does not. Hence there must be something wrong with this way of determining prices. In my judgment the error lies in not seeing that purchasing power is synonymous with goods and not with "money."

§ 8. Probably, when we were discussing the phenomenal increase in the production of goods, it may have occurred to some that the vital thing in lowering prices was passed over; that this vast addition of new goods has made a corresponding increase in the demand for "money" to carry on the new volume of transactions; and that prices must have fallen because "money" has not been sufficiently enlarged in amount.

Before discussing this point, let me have a word as to the logic employed. If it be shown that transactions have increased—which all admit—and also that prices have fallen, it is not competent to assume that prices have fallen because "money" has not increased in proportion to the transactions. This method of arguing assumes the whole point at issue—the cause of the change in the price-level. In order to prove that the amount of money in circulation regulates prices, it is not permissible in the progress of the argument to assume the thing to be proved.

To pass now to the main question, there is a strong belief that—even if we admit that the demand for goods

is not synonymous with the volume of the circulation—the demand for money, in exchanging goods, is imperative, *sui generis;* and that an increase of transactions would necessarily increase the demand for "money," enhance the value of "money," and thus lower prices. It is exactly in this connection that, in my judgment, the inadequacy of the old reasoning about prices most clearly appears. In a word, this inadequacy is to be found in an untenable assumption about the conditions under which the issues of mouey are made. It is impossible to start with the assumption that the quantity of the circulation is capable of monopoly. And yet this is the Ricardian hypothesis. If there were limited sorts of media of exchange, and if these were wholly under control as regards the quantity outstanding, the conclusion which follows might be hypothetically correct, but it would be quite aside from the facts of to-day.

It is true that the demand for some media of exchange, by which the inconveniences of barter may be obviated, is in a sense imperative. The great mass of modern transactions could not possibly be carried on without the use of some form of a medium of exchange. But in our day there is a wide choice between various media of exchange. Instead of there being only one kind, over which there is a monopoly control by the State, there are many available kinds. In the United States, for instance, should gold be required as a medium, there is free coinage, and a demand for its use would be a demand upon the large existing stock in the world, and not upon the sum actually in use within this country; in a real sense gold is an elastic currency which can be freely imported or exported. But, for the transfer of goods there are also government notes, national bank

notes, bills of exchange, drafts, and the deposit-currency of banks. If there is an imperative demand for a medium of exchange, and if it is found that one sort of medium is limited, instead of a persistent demand that will raise the value of that one kind, the need can be satisfied by some other. No exceptional pressure will be brought to bear on the value of one kind until the capabilities of all kinds have been exhausted. Indeed, the final outcome is that in the deposit-currency we have a machine capable of expanding exactly in proportion to the work to be done. It is this medium of exchange which takes up all possible excess of demand which conceivably might fall on the other media (in most communities having wholesale transactions). Therefore, instead of there being a demand for a medium of exchange which produces a need so imperative that it can give thereby a special value to a form of money, we must believe that with the growth of legitimate transactions, there is created *ipso facto* a medium by the banks in a proportion corresponding exactly to the new need. This is no new saying, but only an application of a truth long ago expressed by a former President of this Association, as follows:

"If the United States government were to pay off every legal tender note, and if every bank-note were to be withdrawn, these changes would produce no real contraction of the currency. With specie thus brought into common use for smaller and every-day transactions, we should, it is true, have a currency far less convenient for its minor uses, and we should no doubt see the use of the deposit and check system thus carried prematurely into classes of transactions and sections of country where the note now meets a popular demand;

but, as regards the mass of exchanges from which the business condition of the country at any given time takes its tone, we should find them carried on as now, by a creation of bank credits on whatever scale the needs of the time might require."[1]

Nor does it touch the pivotal point of the price question to discuss the effect on prices of changes in the rate of interest. A rise in the rate of interest, as is known to all economists, is a rise in the charge for the use of capital, and does not necessarily involve a demand for standard money in which prices are expressed. But the essential fallacy in trying to connect the "value of money" with the rate of interest consists in supposing that price, or the exchange value between goods and some standard, can be determined by studying only the forces on the money side of that exchange.

§ 9. It seems to me obsolete to talk of the offer of goods as the true demand for "money," in any sense that such a demand regulates its value. The need of a medium of exchange requires satisfaction; but the human race has long ago evolved a means of payment, through various devices which meets this need, with very little demand upon the valuable standard itself, and consequently without creating any effects to speak of on the value of gold, and thus on the level of prices. In applying the theory of demand and supply to the price problem, the demand for a medium of exchange is not at all synonymous with a demand for the standard in which prices are expressed. Nor is the supply of "money," which has any direct influence on general prices, the supply of the media of exchange. We may

[1] C. F. Dunbar, Deposits as Currency, *Quar. Journ. Econ.* I, July, 1887, pp. 409-413. Also Economic Essays, (1904), p. 179.

have vast changes in the supply of media of exchange without causing any changes in the price-level. If such changes take place in this kind of money they are in the main referable to changes in the condition of business, to a rise or fall of the volume of transactions, due to causes quite independent of the quantity of "money" in circulation. The principle of demand and supply as applied to the price-question still holds good. On the one side, there is an increase, or decrease in the demand for the price-standard, as well as an increase or decrease in its supply, to be taken into account. But this is only half the solution. On the other side, there is the increase or decrease in the expenses of production of goods in general which are to be compared with the standard of prices. These points are essential elements in any theory of prices.

§ 10. No time remains to me to introduce in detail the relation of credit to the price-level. In speaking of the theory of purchasing power, it was stated that, in a true sense, a man's purchasing power consisted of all his cash, and of all his immediately saleable goods; or, of all his cash plus all his credit. The general purchasing power of a community, therefore, directed against all goods, is composed of all the cash, plus all the immediately saleable, or bankable goods. This, however, is only a statement of the machinery by which all goods,—all supply and all demand—are exchanged against each other. In truth, normal credit, by coining salable goods into present means of payment, merely sets more goods into circulatory exchange against each other than would be possible without the use of credit. In the end, since only a larger volume of goods are off-

set against each other, we have a movement of a larger volume of goods at prices previously determined by a price-making process—a process usually finished before the moment when the goods are exchanged for some form of money. With abnormal credit, there may be a temporary and fictitious rise of prices, followed inevitably by a serious decline.

The situation may be easily grasped by the accompanying simple graphic illustration:[1]

(1)	(2)	(3)
WEALTH OR GOODS.	GOLD OR SILVER.	FORMS OF CREDIT.

§ 12. In conclusion, permit me to state in the form of various questions the pivotal issues involved in the theory of prices, and which must be settled before we can arrive at definite conclusions:

1. Is the price of goods the quantity of some standard commodity for which they will exchange, or is it the relation between goods and a variety of several media of exchange?

2. If true money is a commodity, like gold, then what determines the exchange value between goods and that commodity? Is the problem in any way different from that of obtaining the exchange value of any two commodities?

3. What is the actual process of evaluation between goods and gold?

4. If Demand and Supply regulate the value of money (cost of production apart), what is the exact meaning of Demand for money and of Supply of money?

[1] See, for a fuller discussion of these points, my Principles of Money, chap. iv, and especially, page 112.

5. Is the demand for a money-metal only the monetary demand? Is the demand for a commodity *as money* something *sui generis?*

6. In the theory of prices, what is meant by "money?" Is it only gold, or gold together with everything, such as deposit currency, which acts as a medium of exchange? In short, what constitutes the supply of money?

7. If prices are influenced by "purchasing-power," is that synonymous with the sum of the existing media of exchange, multiplied by its rapidity of circulation? Or is purchasing power in its ultimate analysis synonymous with the offer of saleable goods?

8. Have the expenses of production, or progress in the arts, no influence on the general level of prices?

9. What is the effect of credit on general prices?

10. How do fluctuations in bank reserves actually affect general prices? Does the rate of interest, being paid for capital and not for money, have an effect on prices through its effect on loans?

11. By what economic process would a great new supply of gold influence general prices? Only by being directly offered for goods as a medium of exchange?

12. Does the Ricardian reasoning in favor of the quantity theory of prices hold in monetary systems where free coinage of the standard money exists, and where devices other than the standard, are used as media of exchange? If mints are open, how can the coin differ in value from the bullion of which it is made?

THE RELATION OF THE CREDIT SYSTEM TO THE VALUE OF MONEY

DAVID KINLEY

The phenomena of credit present different aspects according to the point of view from which they are approached; although, of course, a correct analysis must lead us to similar conclusions, irrespective of our starting point. Some points of view and methods of approach, however, will undoubtedly cause the data to yield more readily to discussion than will others. It is worth while, therefore, to exercise some care in choosing a starting point for one's discussion. For my own purpose, it has seemed best to treat the subject from the view-point of the action of society as a unit in effecting its exchanges of goods. The question of the relation of credit and prices, then, becomes a discussion of the adjustment which society makes between its different modes of effecting exchanges, and it would appear to be simpler to follow the changes from this standpoint.

Moreover, it would be possible to trace the effects of the phenomena we are considering by starting with the idea that changes in prices are caused by the extension of credit, rather than the reverse. The objection to this mode of procedure lies in the fact that, broadly speaking, credit expands only in response to demand. It is entirely possible,—indeed it very likely happens at times,—that credit anticipates and forces a demand for more means of exchange. If an important cheapening in the credit process were suddenly discovered and adopted, doubtless the banks could properly be regarded as a starting point of a series of changes affecting the

relation between money and credit. This, however, is so exceptional a situation, and the opinion is so generally held that credit can expand only as demand for it enlarges, that it is more satisfactory to treat the subject from the view-point of changing demand. We then ask ourselves the question, How does the credit mechanism respond to such changes in demand?

In the time available, only an outline of the subject can be presented. Moreover, the discussion must be incomplete without some account of its relation to the general theory of the value of money. In order to make my position clear, therefore, I wish to state very briefly some things which, in the discussion, I must take for granted.

In the first place, it is taken for granted that the law of demand and supply applies in some way to the determination of the value of money, as it does to the value of other commodities.

The value of commodity money is not, under any circumstances, proportional to its quantity. Nevertheless, with money, as with other commodities, a change either in the supply of, or in the demand for, money, tends to disturb the ratio of exchange between it and other articles. This will result, irrespective of our view as to the course in which the causal relation runs as between money and goods, in determining the price level; and irrespective, too, of any particular theory of value. That is to say, a change in the price level, or the value of money, may take place on account of changes on the money side or on the goods side.

In the next place, money is a peculiar commodity. It does not wear out, practically speaking; and so it may perform its service indefinitely. Moreover, it may per-

form its work directly, as in the case of money payments, or indirectly, as by the use of credit. In either case, it effects exchanges and makes payments.

Society has a choice of means of exchange and payment at different costs. It meets a demand for more medium of exchange, or for the transaction of a larger volume of business, by the least expensive readjustment of the exchange system possible at the time, with the result that the marginal utility of the money article, for all uses, is the same, at the same time. We may exchange goods either by barter, by money exchange, or by credit exchange. Changes in the supply of money may not manifest themselves in price changes, because the credit system may distribute the pressure so as to maintain the previous price equilibrium. In other words, an increase in the supply of money to effect a given volume of exchanges may not change the price level, because it may simply displace, to a certain extent, other means of exchange previously employed. On the other hand, a change in the demand for means of exchange may be met, within limits, by the credit mechanism, without an increase in the supply of money, and with smaller change of prices than would occur if there were no credit exchanges.

The great service of the credit mechanism, then, is in allowing changes in the volume of exchanges, within limits, without occasioning or making necessary, any change in the supply of money used in effecting them; in so adjusting itself to a new supply of money, or a new demand for it, as to cause the minimum disturbance of prices.

We confine our discussion, of course, to bank credit. It is through the use of standard money as a reserve

that the credit system exerts its influence on the price level. It is important to consider for a moment the exact nature of the service rendered by reserve money. President Hadley very truly remarks that the most important function of money now is its service as a reserve. If we have an adequate amount of standard money for reserves, we can use other things as media of exchange; if, however, our reserves are not sufficient, no amount of other media of exchange will give us steady prices or a stable monetary system.

The standard of money held as reserve is, of course, the same as the medium of direct money exchange. Its use as a reserve provides, however, a method of performing the exchange service more effectively. It may be objected that the service performed by reserve money is not different in character from that of money used in direct exchange, and that its influence, therefore, cannot differ from the influence of money used in direct exchange, so far as concerns the establishment of a price level. But it is doubtful, at least, whether such a statement can be successfully defended. It is true that money used in reserves does not perform any new service, but it performs the old service in a much more effective way. Consequently, a much smaller amount of it is necessary to maintain, in an indirect way, the price level which would require a large amount if used only in direct money exchange.

This point is important enough to justify a little elaboration. The same power may produce consequences of different magnitude, according to the way it is used. A hundred pounds of hand pressure directly applied may not move a rock that is easily lifted when the same pressure is applied through a properly adjusted

lever. This, of course, is not an analogy, nor is any argument drawn from it. The illustration is meant merely to make clear the meaning of the statement as to the comparative efficiency of indirect and direct use of the same agent. Yet the analogy of the compound lever would not lead us far astray. For credit is, in a way, a system of balanced forces, which can be made to exert a large influence by a relatively small power. When business increases, and a larger volume of exchanges is to be effected, a very small change in the proportion of money assigned to the reserve may satisfy a considerable increase in the volume of exchanges.

Under static conditions, standard money is distributed between reserves and direct money payments in such division as to make its marginal utility for each service the same. If an increase occurs in the volume of exchanges to be performed, or in the supply of standard money, a new apportionment is necessary between the two uses. Just how this new apportionment is made, and the manner in which it affects the value of money, are points that we need to consider.

The conditions are an increased supply of commodities seeking to be exchanged, the same volume of standard money divided between direct and indirect use in making payments, all other circumstances remaining unchanged. The effect of the credit system is to cause the exchanges to be performed with the least possible change in prices.

We must remember that an increased volume of commodities offered for sale is not necessarily a demand for more money. It is a demand for more means of exchange, whether money or credit; and this larger amount of means of exchange may be furnished either

by an increased amount of standard money, or by a greater efficiency of the existing supply, whether that greater efficiency be secured by so-called rapidity of circulation or by increasing the power and scope of credit exchanges.

When the demand for more means of exchange arises, the credit system may, or may not, be in use to the limit of its capacity, as conditioned by the existing reserve and the degree of refinement of the credit mechanism. If it is at the limit of its capacity, more reserve money must be obtained. The money used in direct exchanges, commonly said to be in active circulation, will be drawn on. Hence the marginal utility of the money commodity will rise; the value of money will settle at the point where the new apportionment to reserve use will be sufficient to carry the new volume of credit; and the new amount of direct exchange money will just suffice for the exchanges to be made by ready money payments. The whole volume of exchanges performed will be divided between credit exchanges and direct money exchanges in such proportion as will make the existing money supply sufficient to effect the exchanges, on a somewhat changed price level, through the reapportionment of the money used as reserve and in direct payments. As remarked before, part of the money used in direct payments will be drawn off for reserve, while the remainder will perform the volume of direct exchanges at the different price level; the amount drawn off being such that, with what is left for direct payments and with the volume of exchanges that can be effected through credit, the total volume of exchanges to be effected will be performed. The marginal utility of the money commodity will be raised; in other words,

there will be a fall in the price level, or a retardation of its rise, as is evidenced further by the fact that there is a larger volume of commodities to be exchanged.

We may illustrate the process by tracing a sale in connection with which a credit system is established where none existed previously. A sells B a bill of goods for future payment, draws a bill on him and gets it discounted by C, taking notes in exchange. These notes are paid out by A to D, E, and others. Part of them return to C in such a way as to cancel one another, as when D or E pays a debt to B, and B turns in notes as part payment of the original bill, now held by C. Part of the notes, however, must be paid by C in money. This necessitates his keeping a reserve, and it will cause a withdrawal of some money from use in direct payment. Hence the marginal utility of money changes, a division of the money for the two modes of serving its purpose is made, as previously described, and the value of money will tend to rise.

It is unnecessary here to trace the effect of drawing the metal from non-monetary uses. The operation and its results on the value of money will be similar to what takes place when reserve money is increased at the expense of direct exchange money.

If the credit mechanism is not at the limit of its capacity when the volume of business enlarges the demand for more means of exchange, an additional amount of exchanges may be made on the same reserve. In this case, there would seem to be no rise in the value of the money commodity. Moreover, it is a common phenomenon that credit expands on a rising market; so that there seems to be a contradiction of what has been said. But the contradiction is only apparent. There occurs

a *retardation of the rise of prices*, as credit expands; and, therefore, a relative rise in the value of money, as before. Enlarging credit is accompanied with a rising rate of discount. The discount includes not only interest in the proper sense, but a payment for making the loan in the form of money, or command over money, that is, a payment for the special character of the loan. This is exacted because the growing demand for means of exchange produces relative scarcity of it. When, then, a bill drawn against goods is discounted, the true price of the goods is the face of the bill less that part of the discount which is payment for the loan of capital of a particular kind, for which the demand, for the time, is strong. Therefore, the amount of credit medium of exchange necessary to effect the exchange of the given amount of goods is less than the face of the bill would indicate, and the strain on reserve money is less. Its value will therefore rise less than on the face of things would be expected; and since, according to our hypothesis, trade is brisk, prices rise faster than the marginal utility of money. Hence, the net result appears still as a rising price level, but at a retarded speed. When the discount rate rises high enough, the payment in discount for the loan of the specific article (money, or command over it) cuts too far into the profit from the sale of the goods, and credit stops expanding. Then a positive fall (rather than a negative fall, or retarded rise) of prices ensues. I may remark in passing that a similar argument might have been used to show the effect of an increased demand for credit when the credit system is at its limit of capacity.

A similar series of phenomena would appear if there were a draft for non-monetary uses upon a portion of

the standard commodity used as money. The draft would doubtless fall first upon the bank reserves and this would be replenished at the expense of standard money in circulation, assuming, of course, that there is no new supply. The effect would be the reapportionment of the standard commodity left for monetary uses between its direet and indirect uses, in such proportion that, the credit demand being what it is, the two together will carry off all the commodities offered in exchange on the market. The marginal utility of money in this case, of course,will be raised by a diminution in its supply for the same demand; whereas, before, the marginal utility was raised by an increase in the demand for the same supply. In both cases the marginal utility of the money article for direct and for indirect payments must be the same. Of course, on the occasion of all such changes, a new equilibrium is established also between monetary and non-monetary uses of the standard; but this, and all that is involved in it, I am taking for granted in this discussion.

The value of money determined by the equilibrium between its direct and indirect use for effecting exchanges, is such that the volume of exchanges is the largest possible under given conditions. In other words, the available money is so distributed between reserve and non-reserve as to perform the largest volume of exchanges under existing conditions of credit and money supply; or, to perform the same volume of busines on a lower price level. In other words, the credit system apportions the money supply so as to secure its maximum utility in effecting exchanges. Hence, it acts persistently through long periods to cause a gradual fall of the price level, in the absence of a new supply of

money; or sets at work forces which counteract the influence of such new supply. To illustrate this point, suppose some improvement in productive processes reduces the cost of their present product to a certain class of producers, say cotton goods manufacturers. They extend their operations to take advantage of the lower cost. To do so they borrow. The cash reserve of the bank is diminished, relatively to liabilities, and perhaps absolutely by cash withdrawals to pay wages, etc. Soon, however, the diminished reserve causes a higher rate of discount, attracts cash deposits, and lessens the amount of exchange money. A new distribution of the available money supply between reserve and non-reserve is made, at a value which will perform the new volume of exchanges. Its value is thus kept pressed close to the changing demand for it, as represented by the volume of goods offered for it.

The greater the degree of cancellation by credit transactions, the smaller the normal reserve needed. The marginal utility of money falls, therefore, for a given volume of exchange, as the credit mechanism becomes more refined. Or, a larger volume of business may be done on the same reserve at the same, or only slightly raised, prices. This influence also appears as a stimulant of the upward trend of prices of which the expansion of credit is, considered by itself, the result.

From what has been said it seems that we may conclude:

1. That the introduction of a credit mechanism where none existed would increase the efficiency of the existing money supply, and make possible, at first, a larger volume of exchanges on the old price level, or possibly, on a lower one; or later on a higher one, which, however,

would not be raised in so great a proportion as the increase of the volume of business.

2. Similarly, where the credit system is already in operation, a new supply of money may either simply displace some credit exchanges with, possibly, no change in the price level or the volume of business; or, more likely in a progressive community, the credit system will cause the whole money supply to be so apportioned between reserve and direct money payments as to increase the volume of exchanges done by both, on a higher price level at first, but gradually falling as the volume of credit transactions grows.

3. That the expansion of credit transactions tends to raise the value of an existing supply of money and thus retard the upward trend of prices, of which the credit expansion is normally the result. But at the same time, the credit system gives a higher efficiency to part of the money supply, so that the net result of the growth of credit may for a time be a rise of prices. Ultimately, however, the demand for more reserve raises its marginal utility.

4. The greater the ramification and refinement of the credit mechanism, the less the money needed for a given volume of trade.

5. Under modern methods of production with large fixed capital, the credit system exerts a steady influence to depress the price level.

6. These results are accomplished by apportioning the money supply in changing proportion between reserve and direct payment money in favor of the reserve money, to effect the increasing volume of payments, with the result that the marginal utility of money gradually rises, but not so rapidly as the volume of business.

CREDIT AND THE VALUE OF MONEY

A. PIATT ANDREW

The generally accepted views in regard to the value of money, as we have seen this morning, have been subjected of late to many emendations and have been arraigned upon many charges. I propose that we examine some of these emendations and look into a few of the charges. For an unconscionable period men have supposed that the value of money was importantly influenced by its quantity, but to-day we observe that there are many who are inclined to attribute to that factor a quite subordinate influence in determining money's value. For a long time, too, it has been believed that the value of money was largely affected by the amount of available credit, but this assumption has also recently been called in question.

As regards the influence of the quantity of money, I think I am safe in saying that no one goes so far in his opposition to the traditional view as to deny that under certain conditions it may be one factor in determining money's value. Even Professor Laughlin, who in his "*Principles of Money*," and in his address of this morning, has argued so ingeniously for the falsity of the quantity theory, has admitted its applicability in the case of countries with an inconvertible paper or a limited coinage (*Principles*, pp. 314, 380). He even allows that under ordinary conditions of free coinage "the value of the standard can be influenced by supply" (p. 339, Note). "No one doubts," he says, "that an increased supply of the standard metal would affect its

value, and hence affect prices" (p. 327). And he regards it as evident, for example, that in the sixteenth century "the importation of specie . . . . from the New World created perturbations of a serious nature in the value of silver, and consequently in the prices of all goods, wages and rents expressed in that standard" (p. 225).

On the other hand, there are none of the traditional school who claim that the monetary supply is the one and only influential factor. If every one admits that the quantity of money sometimes affects its value, every one is likewise agreed that other factors also influence it. The disputed questions concern the limitations within which changes in the quantity of money are of consequence, and the comparative importance of the other factors.

Traditionally it has been believed that the value of money is affected not merely by its abundance, but also by what has been variously termed its "mobility," the "quickness of its circulation," the "frequency of its exchange," or its "efficiency." Here at the very outset not only does one encounter to-day considerable diversity of opinion as to what is intended by these terms, but one recent writer, Mr. Carlile, in his "*Evolution of Modern Money*," has ventured to conclude that "by no sort of twisting and turning can any valid signification whatever be attached to the theory" (p. 166). One must admit that fluctuations in this factor seldom exert an observable influence over the price level. A decreasing activity in the circulation of money usually but reflects a simultaneous decrease in the volume of transactions to be settled, and a brisker circulation of money

on the other hand, generally only accompanies a brisker circulation of commodities. Although the money supply might appear to be virtually enlarged through the increase in its efficiency, the new supply is apt to be simultaneously devoured by a correspondingly large demand, and the effect upon the price level of such changes is therefore in most cases not to be discerned. It does not follow, however, that this factor is a negligible factor. Its effects may exist latently, and by appealing to them we are helped in explaining certain otherwise anomalous situations, as, for instance, where the stocks of money in different countries do not vary with their trade, or as when prices do not fluctuate within a given country with changes in the amount of business done.

The notion that the value of money tends to be influenced by the amount of "money work" or business done, though similarly venerable, has also been disputed. It used to be thought that any considerable changes in the volume of transactions to be mediated, especially if due to enduring causes, would tend to affect the general price level. Fluctuations in the mass of business represented changes in the demand for means of payment, and as the demand increased, prices would be apt to fall, as it decreased they would tend to rise. Here again is a factor whose effects are often counterbalanced by other factors working in a contrary direction, and whose influence has for that reason sometimes been called in question. Variations in the volume of trade, it has been contended, do not involve proportional changes in the demand for standard money, and Professor Laughlin assures us that there is "no direct relation between

them" (p. 346), implying, it would seem, that changes in the amount of business exert no direct influence upon money's value.

Now we may admit that variations in this factor are apt to be offset, as has just been seen, by a greater or lesser frequency in the employment of money, or may be partially met by a larger or smaller use of money substitutes, and that in such cases they may induce no change in the actual money employed, and at the same time may be followed by no corresponding alteration of the price level. We are not obliged, however, to conclude that a tendency is absent because its action is counteracted and its effects concealed. The change in the demand for means of payment, though met sometimes by a different efficiency in the existing money supply, and sometimes by a variation in the amount of money substitutes employed, still unquestionably remains a contributing factor not to be left out of account in explaining any concrete variations in general prices.

When we turn to the subject of credit we reach a field in which still greater discords of opinion prevails. No one can very well deny that credit agencies serve in vast proportions as media of exchange, but upon scarcely any other question touching credit does anything like harmony of thought appear. Almost every writer on the subject has his own peculiar views about its influence over money's value. We are informed by some that "credit in whatever shape given" acts upon prices (Mill, Bk. III, Ch. XII, § 1); by others that credit influences the price level only when embodied in transferable forms; by still others that credit normally does not affect prices at all (Laughlin, p. 98); and there are

many intervening shades of opinion. Concerniug the conditions which govern the extension of credit, a similar disparity of thought exists. By some we are told that it is subject only to the will of bankers and traders, by others that it is governed by "the value of marketable goods or property owned by borrowers" (Laughlin, p. 93). By many respected experts it has been thought to be conditioned by the monetary supply, yet there are others equally respected who assure us that "any amount of credit may be created and extinguished without any relation to the quantity of money" (McLeod, p. 734; Laughlin, p. 85).

Here stand posed the two questions about credit most vitally significant for monetary theory, questions that intertwine with each other and are only partially separable in thought; first, as to the conditions under which, if ever, credit may influence prices; and, second, as to what factors limit its extension.

Unless the value of money is determined by tendencies different from those governing the values of all other commodities, it depends upon demand and supply, and under supply is included not merely its own quantity, but that of all its possible substitutes as well. Very much as the value of American winter wheat depends not alone upon its own amount, but also upon the output of American spring wheat and upon the size of the crops harvested in Argentina, Russia, India, and elsewhere, so the value of money must hinge not alone upon the supply of gold and silver, but also upon the amount of all the other agencies and contrivances capable of mediating exchange. Any considerable increase in the media of payment, whether in the form of money or of other instruments which may be used in place of

money will tend to lower the value of the individual money unit, quite as an enlargement in the crops of South America or Europe will tend to lower the value of an individual bushel of wheat from the Dakotas. The multiplication of money substitutes may of course run parallel to an increase in business, and the two movements may cancel each other without leaving any traces upon money's value; but in a similar way an expansion of the wheat crop in Argentina may accompany an enlarged consumption of bread stuffs and register no effect upon the price of Dakota wheat. One can scarcely see why it should be more necessary in the one case than in the other to insist upon what would seem to be an obvious proposition that the use of substitutes tends to affect value, even though the evidences of the tendency are frequently, perhaps "normally," concealed by counteracting forces.

Among the devices commonly spoken of as money are usually included along with coin a number of other means of payment which circulate similarly without friction—devices which "pass by simple delivery," as McLeod puts it, meaning that they are accepted freely without endorsement or any particular scrutiny. Credit contributes a number of such devices, like the notes of the government treasury and the legally secured notes of the banks, which in certain respects are even more convenient and efficient means of payment than the coins, and which in popular language and in the writings of many economists are classed as money. I doubt whether any one could be found who would deny that the expansion and contraction of these devices as surely tends to raise and lower prices as fluctuations in the supply of coin.

Credit also contributes other instruments, equally capable of representing and transferring purchasing power and of mediating exchanges, which are not usually designated as money. One does not need to dwell in our day upon the importance as currency of the arrangements furnished by the banks. With their elaborate machinery for the cancellation of indebtedness through checks, book transfers, and clearing-houses, they have evidently created an independent agency of settlement quite as available for mediating business and for consummating transactions as money itself, and in proportions relatively more extensive. Last year the deposit accounts subject to withdrawal by check of such banks as reported to the Comptroller of the Currency aggregated a total three times as large as the sum of all the money of all kinds circulating throughout the country, including the bank reserves themselves. When compared with this vast total, all the other non-monetary media of exchange mentioned in the books become insignificant. The bills and notes of merchants which are occasionally transferred by endorsement in settlement of purchases, the bonds, stocks, postal notes, etc., which are sometimes described as assisting in accomplishing payments at a distance, the miscellaneous devices which have been used in critical emergencies need be mentioned only as *obiter dicta*, and do not require to be taken further into our reckoning.

It is difficult to grasp the logic by which the influence of the check and deposit system upon prices has sometimes been denied. It is hard to see how any one can assume, as President Walker (*Q. J. E.*, VIII, p. 67), and Professor Laughlin (*Principles*, pp. 102–3), appear

to have done, that the demand for the means of exchange furnished by the banks is distinguishable from the demand for monetary means of exchange, and expands and contracts independently of it. If checks and deposits accomplish work which would otherwise devolve upon money, and this is not denied, then the demand for them is not a distinct and separate demand, and changes in their amount or in the extent of their employment must tend to influence the value of the money in whose stead they are employed.

So much for the influence of credit when it gives rise to transferable instruments. Government notes, bank notes, and bank deposits are all means of complete and final payment, able to settle transactions definitively without any even eventual resort to coin. Credit in such cases furnishes thorough substitutes for coin, capable like coin, of mediating exchanges by transfer from hand to hand. We are bound to believe that fluctuations in the resort to such varieties of credit tend to affect prices. Credit exists, however, in other forms which do not circulate, and here the relations are not so clear and require more careful analysis. There are those who accept the dictum of John Stuart Mill that "what acts on prices is *credit* in whatever shape given and whether it gives rise to any transferable instruments capable of passing into circulation or not" (Book III, Ch. XII, § 1). They call attention to the familiar methods of obtaining goods and services and of temporarily settling transactions by accepting bills of exchange, signing promissory notes, or by the mere inscription of indebtedness upon dealers' books; and they tell us that purchases effected provisionally in such ways by pledging a future transfer of real means of

payment, "create just as much demand for goods and tend quite as much to raise their price" (Mill, Bk. III, Ch. XI, § 3), as purchases made with ready money or other means of final settlement.

There is a fundamental difference, however, between the circulating forms of credit and those which for lack of a better name we may perhaps call "fixed." The former are real means of payment, the latter only means of postponing payment. While circulating credit takes the place of money, fixed credit only increases its use at a subsequent date, for bills, notes, and book entries all bring ultimately in their train a demand for real means of payment to complete the transactions which they have helped to initiate. Sooner or later they must be redeemed in means of final settlement. On this account we may readily imagine different situations in which the existence of what I have perhaps inaptly called "fixed" credit might result in no change in the price level, or again might instigate a positive decline, while in only rare cases would it be likely to stimulate a rise. Let us consider examples of each of these three situations.

Suppose, in the first place, the new purchases being made "on credit" during a given period just balance the old debts coming due. In such a case the addition to current means of purchase made by the newly incurred obligations will be cancelled by an equivalent subtraction of other means in settlement of past purchases. As many means of payment will be withdrawn from current use for the redemption of past pledges as are being economized on the other hand by the use of pledges for the future; and the postponing devices will

not increase even temporarily the media of trade. The amount of currency available will be no greater on account of their existence, and the price level, we may conclude, will stand no higher than it would have stood had no credit whatever been employed. In other words, the existence of no matter how many millions of credit in these forms in a community, provided the amount is not increasing, will not make the price level higher than it would have been had credit never been given at all.

Of course it must be at once admitted that while credit in these forms does not of itself serve as a substitute for money, it frequently helps in settling transactions by *other* means without the use of money. The resort to book credits in particular sometimes economizes money by making possible a sort of prolonged barter. Those who are alternately buyers from and sellers to each other are enabled in certain cases by book entries to offset their mutual purchases and settle them by cancellation. This for instance happens in rural districts where farmers are credited on the books of a dealer with the value of the produce they bring in and then in turn secure their supplies on the basis of these credits. Book credits render a further and more important service in economizing money by encouraging the use of checks and deposits. Small purchases, which if paid for from day to day, would be more conveniently settled by money are, when charged, collected on dealers' books and eventually settled still more conveniently in a single lump by check. Purchasing upon account thus without settling transactions, makes it easier in the end to settle them with checks; and book credits, without themselves being substitutes for money,

perform an important function in promoting the use of real substitutes.

In such indirect ways untransferable credit renders considerable assistance in effecting the exchange of goods without the use of money; yet as a general description of the direct influence of such forms of credit our original statement still holds good. In the cases just cited it is the check which actually makes the payment and not the book entry, and it is the check and deposit system, not the system of postponing payments, which increases the community's media of exchange. Given a community with a certain amount of money and a certain quantum of money substitutes, and given certain rates for their circulation, the resort to credit in its fixed form will accomplish no direct saving of money and no increase even in the provisional means of purchase, if the new debts being assumed only equal the old debts coming due.

Indeed one can carry this idea to a conclusion still more strikingly at variance with commonly accepted views; for, not only is it true that credits which are not increasing make no addition to the means of payment and exert no influence over prices, but it will further be observed that if the new grants are not equivalent in amount to the old ones which are maturing, the means of payment available for use to-day will actually be less than they would have been had credit in these forms never been employed at all, and prices will tend to drop even below the point which they would have attained had only means of final settlement been used. If a greater quantity of money (or its substitutes) is being withdrawn from present use to redeem past credits and settle past transactions, than the quantity of credits now

being created, the result will obviously be an actual reduction in the amount of money currently available. If this be true then we should expect a fall in prices below the level normally supportable by the money in the country. The supply of currency will really be *diminished* and prices will really decline for the very reason that resort has been made to these postponing devices, and this will be true although vast amounts of new credit are still being created.

The only conditions under which the postponing devices can produce effects like those resulting from a real increase in the currency, and can induce and maintain a higher range of prices, is when they are increasing in quantity continually and by at least equal successive increments. If, for example, we suppose an extension of book credits amounting to, say 20 per cent., to have taken place, and prices to have risen proportionally, this new price level can only be maintained, if at the end of the credit period new accounts are opened, not merely to the amount of those then maturing, but to that amount with still another 20 per cent. additional. As these mature, if prices are not to fall, the latter credits must be reduplicated with yet another 20 per cent. increase. And so the process must continue. If the postponing devices are really to operate like money substitutes, and are to produce similar effects—that is to say, if they are to support continuously an elevated scale of prices, it can only be, by extending their volume cumulatively.

A continuous or progressive rise in prices according to these principles will only result from the use of book credits and postponing devices, when their volume is expanding, not merely by the progressive addition of

uniform increments, but by the accumulation of ever *enlarging* increments, and such conditions must inevitably be of brief duration. They are doubtless sometimes realized during highly speculative periods when buyers, in expectation of a rise in prices, resort to book credits and the other postponing devices with greater and greater freedom in order to extend their purchases. Then as each rise in the price of goods stimulates the anticipation of a further rise, people use their credit more and more restrictedly, and unquestionably at such moments most persons have a more extensive credit to which they may resort because of the larger gains which they seem to be realizing. With such conditions prevailing, through the swiftly expanding employment of deferred settlements, it is conceivable that there may ensue a steady mounting of the general price level, but only for a limited period.

Credit cannot be indefinitely expanded, and an advance in prices of this character cannot be long continued. The enlargements of trade through the action of the means of temporary settlement, even though these means are regularly renewed and extended, eventually approach their limit. As soon as the volume of credit ceases to increase by progressively expanding conditions, prices will, as we have seen, stop rising. And when eventually credit reaches its maximum and ceases further to increase, other things being equal, prices will drop to the point where they would have remained had credit never been employed at all. Prices will fall in this way, although there may be hundreds of millions of credit in existence in the form of bills and notes and book accounts, all of which are being renewed or replaced as they mature. If moreover, as very frequently

happens in such cases, credit becomes actually contracted—if new obligations cannot be entered upon on the same scale as formerly—prices will tend to fall even below the level that would be normally supported by the money in the country. The credits coming due will then exceed those being created and currency will be diverted from the purchase of present goods to payment for goods bought in the past. As long as this situation continues the general level of prices will tend to remain below that which the monetary circulation of the community would have been able to maintain alone if no credit had ever been employed.

Our general conclusion, then, with regard to the influence of credit is that it can only serve as a substitute for coin when it exists in transferable forms. The fixed forms of credit cannot definitively settle payments, and they fail accordingly of making any real or permanent extension of the currency supply. For a limited interval they may make possible a more ample trade or may support a higher price level, but *in the long run they only serve to enlarge the subsequent demand for actual currency. They are in no sense substitutes for money, and only rarely and temporarily does their existence tend to lower money's value.*

Our second question concerned the conditions which limit the extension of credit, and our analysis of the various forms in which it exists has simplified the reply. We have seen that credit normally affects prices in only two forms: *First*, fiduciary money, meaning bank and government notes (with, in most countries, the silver and copper coins), and *second*, the check and deposit system of the banks. We can very well pass

over the conditions limiting fiduciary money. They scarcely lend themselves to general treatment, being for the most part legislative restrictions differing from country to country and changing from time to time. The deposit system, on the other hand, is less tightly bound by laws, and our inquiry regarding the limits of credit thus virtually resolves itself into an analysis of the influences which govern the use of checks and deposits.

Ever since men began to think about banking, some three hundred years ago, there has been a succession of writers who believed that the sound extension of banking credit was only limited by "the value of marketable goods or property owned by borrowers." This was the theory of most of the projectors of English banks in the 17th century (*Q. J. E.* II, 482, ff.). It was the belief of the numerous advocates of land bank schemes in the American colonies. It was the opinion of the directors of the Bank of England at the time of the Bullion Report, as well as of others who opposed the repeal of the Restriction Act. The theory survives to-day, emerging where one would least expect it, and supported by the same arguments as were used in its behalf a century and two centuries ago. We hear to-day, as men heard in the days of John Law, or of Chamberlayne's Land Bank, or in the days of the Assignats, or of the Restriction Act, that "goods, not money form the basis of credit operations" (Laughlin, p. 84); that "any amount of credit may be created .... without any relation to the quantity of money," (p. 85) and that the extension of credit is sound and normal "so long as the claims held by the bank are based upon actual and salable property" (p. 93). We are assured that "the limit to the increase in legitimate

operations is always expansible with the increase in the actual movement of goods," and that any "concern excited by such expansion is groundless, so far as it is based upon goods, or restrained within a safe estimate of the value of these goods." (p. 82).

The objections to this theory have been too often stated in discussions about bank notes and paper money to require elaborate reiteration in the case of bank loans in the form of deposits. Credit in its various forms may, with the consent of the creditor, be exchanged for and cancelled by, other credit or ordinary commodities, but it always purports to be payable in money, and if the creditor so desires, it must be actually so redeemed. It is preposterous then to assume that credit can be issued indefinitely upon the basis of goods without any regard whatever to the quantity of available money in which it is likely from time to time to be presented for redemption. There is good reason to believe in fact that long before all of the property and goods in a community could be "coined by the banks into present means of payment," credit would be presented to them in overwhelming amounts for settlement in cash. If the banks were to undertake to create either notes or deposits to the extent of the value of all goods and property in the country, bankruptcy would be the inevitable outcome, for the ensuing rise in prices and adverse balance of trade would instigate a demand for gold for export which would sweep every remnant of specie from their reserves. Bankers can no more lend their credit in the form of deposit accounts without regard to their cash reserves than they can in the form of notes. Either course involves disaster.

But one can go further. The fundamental idea in the two cases not only is unsound as a matter of policy,

but it involves impossibilities in its very conception. It is incredible that bankers could, even were they so intentioned, create new means of payment to the extent of the money value of all goods and property. The money values of things depend upon the amount of the means of payment; and every enlargement of the latter's supply, other conditions remaining unchanged, involves an increase in the former's value. Every new extension of credit, though based upon the money value of goods, would tend to raise the price level, and each elevation of the price level in its turn would justify a further extension of credit. The two movements might continue pursuing each other until eternity and yet the aggregate value of the means of payment would not become co-extensive with the money value of all property. The alleged limitation of bank credit by "the value of goods and property owned by borrowers" is from every point of view delusive. It is not only untrue; it is impossible.

That there is some sort of quantitative relationship between the cash reserves of the banks and the possible extension of their credit in the form of deposit accounts, very few are apt to deny; but that this relation varies from time to time must also be admitted, and that the maximum use of deposits is often not attained is equally obvious. There are really two distinguishable questions concerning deposits here involved, on the one hand as to the factors limiting the potential extent, on the other as to the factors limiting the actual extent of their employment.

If checks always operated by means of book transfers and the clearing house, as they habitually do in most countries to-day, there would be no limit to the possible expansion of the so-called deposit accounts until the

law intervened. If no one was likely ever to ask to have checks redeemed in money, bankers could lend accounts on their books indefinitely. As things actually are, however, depositors are sure sometimes to need money, and the banker's power to open new accounts is for this reason effectively restricted. Depositors are continually wanting to draw out money for small everyday expenditures, or as change for the cash drawers of their shops and stores. At periodic intervals, as during the weeks of spring equipment and at harvest time, peculiarly large amounts of cash are wanted, and in emergencies of disturbed confidence banks are subjcet to still further drains. Even if they were freed from these contingencies, any undue expansion of their credit would be apt to stimulate a higher price level and an unfavorable balance of trade, and then with the need of specie for export, checks would inevitably be presented for cash. Evidently for all such cash withdrawals, usual and unusual, the banks must be prepared, and the possible expansion of drawing accounts upon bankers' books therefore depends upon the amount of money in their reserves, taken in connection with the proportion of checks which are likely to be presented for settlement in cash.

This proportion is plainly not a constant factor; it varies from country to country; it changes from season to season; it fluctuates from year to year, according to the condition of a country's foreign indebtedness or its domestic credit. It has grown slowly lower with the gradual extension of modern banking methods, and looking over a considerable lapse of years one can see that the potential limits of fiduciary currency have enlarged more rapidly than the quantity of money. But given a particular locality in a certain reach of time,

let us say a certain decade, one can estimate with considerable exactitude the proportion of deposits which must be covered with cash in order to meet all of the demands, casual, periodic, or extraordinary, which may be expected to arise. It is this proportion which fixes the limits of the deposit maximum, and, given such a proportion, one may then say that an increase in the reserves will tend to enlarge, and a decrease tends to contract the potential extension of deposits.

If the actual expansion and contraction of bank credit always coincided with the potential limits there would be a very close correspondence between changes in the quantity of money and changes in the amount of credit. In reality the relation is more or less flexible. It is only in active and prosperous periods that banks extend their accommodation to the outermost limits; and as cycles of trade recur with their more or less regular succession of phenomena, there come moments when credit is apt to fall far short of its possible dimensions. In the periods of general liquidation such as usually follow commercial crises, even though an increase in the country's monetary supply does take place, the money substitutes will not increase. Bank reserves may then expand without any concomitant expansion of loans and deposits. This was conspicuously the situation in the United States in such years as 1885 and 1894 when, taking the associated banks of New York as an example, the percentage of their reserves to deposits averaged throughout those years above 38 and 37 per cent. respectively, or more than 10 per cent. above their supposedly normal minimum.

Such a situation, however—and this is from our point of view the essential consideration—never endures for long. An increasing supply of money and increas-

ing bank reserves in a period of depression may not lead immediately to an expansion of credit, but they pave the way for its eventual expansion when prosperity returns. It is unprofitable for the banks to hold a surplus of idle cash, and the business world, under normal conditions, is looking for new capital. Sooner or later, if the reserves continue enlarged, with the renewal of confidence and activity, loans and deposits are certain to rise to their new potential maximum. It is to the interest of all concerned that they should do so. While, then, there is a measure of elasticity in the credit currency, so that in every cycle of trade there are fluctuations in the monetary supply that do not reflect themselves in the amount of credit, nevertheless the quantity of money held by the banks sets a limit beyond which credit cannot be extended, and in the course of every cycle this limit is actually reached. *In the long run, as apart from the cyclic oscillations, the quantity of banking credit is governed by the quantity of money, and each permanent addition to the monetary supply tends in the end towards an increase of credit. We are thus brought back to the traditional theorem with which this paper started, that the value of money in the long run depends most importantly upon its quantity. Its quantity affects prices not alone when money enters the circulation, but also when money is gathered in the bank reserves, because the amount of the only kind of credit which serves effectively as a substitute for money depends primarily upon the extent of these reserves.*

The theory of money is many-sided and presents many paths of approach. In the foregoing pages we have been concerned with the value of money itself, not with the value of the material of which it may happen to be made. The principles stated have referred to

money in general and of whatever sort, regardless of whether the standard was one of coin freely minted, or of coin of limited mintage, or of irredeemable paper. It has been insisted that the value of money is importantly influenced by its quantity, but nothing in the argument was intended to deny the counter-proposition which to-day is so frequently made that in the case of a freely coined metallic currency its quantity is in turn affected by its value. In the case of gold, the amount that will be produced, the amount that will be imported, and the amount that will be coined evidently depend upon its value. A change in the general price level in such a case obviously is apt to be the cause as well as the effect of changes in the quantity of money. It is equally true in the case of wheat or iron or cotton or any other commodity. The value at a given moment depends upon the quantity that has been produced, imported and manufactured in the past, yet at the same time the present value acts as cause with regard to the quantity to be produced, imported and manufactured in the future. Value is thus almost always the cause as well as the effect of changes in quantity. This in no way contradicts the principles which it has been the purpose of this paper to defend.

DISCUSSION

ON PAPERS OF LAUGHLIN, KINLEY AND ANDREW ON THE THEORY OF MONEY.

WILLIAM A. SCOTT: I agree with the essential features of the theory of prices expounded by Professor Laughlin, and explain the phenomena of prices in a manner satisfactory to myself only by drawing sharply the distinction between the standard of value and the medium of exchange, as well as by viewing prices as dependent directly on the former and only indirectly and remotely on the latter. In the explanation of the value of the standard, the *starting-point* and *central fact*, in my opinion, are its valuation as a consumers' good in non-monetary uses. According to my understanding of the matter, the medium of exchange affects general prices only because the standard of value happens to constitute one of its elements. But this is not a necessary condition of things, and any theory which proceeds upon the assumption that it is necessary will fail to give a true explanation of prices.

The real question brought before us is precisely how prices are affected by the service of the standard as an element of the medium of exchange. As I understand it, Professor Kinley's view is that the credit element of the currency rests upon the standard element in the sense that there is a point beyond which the former cannot be extended without exerting such a pressure upon bank reserves that the demand for the standard will increase and its value rise. While Professor Kinley

is unable to tell us precisely where that point is, he feels certain that it is some place and that it is located by the expansion of credit. On this subject I cannot share his conviction. I do not believe that his explanation of the relation between credit and bank reserves is true to facts; neither do I believe that the safety of our credit system depends primarily upon the proportion that exists between bank reserves and the volume of credit instruments. In order to make clear my meaning, I may perhaps be permitted to state briefly the theory of credit which I hold.

Credit is the means by which we make possible exchanges in which a period of time elapses between the transfers of commodities. A transfers a good to B, who will make the counter-transfer only after the lapse of some time. A credit instrument of some sort bridges over this period by affording A legal security that the counter-transfer will in due time be made and by enabling him to obtain, if he wishes, means of payment in the interim. The process of exchange which was begun by A's transfer to B and the creation of the credit document is completed either by a counter-transfer of goods when the credit instrument matures, or earlier, if A chooses to use said instrument as a means of payment in its original or in a modified form. The important fact to note is that goods are ultimately paid for by other goods, the credit being simply a step in the process. Now the volume of such exchanges does not seem to me to bear any necessary relation to the volume of those effected through standard or any other form of commodity money, nor does their safety seem to me to depend primarily upon the amount of standard money in existence or in the bank reserves. It depends rather

upon the successful running of the industrial machinery, upon the saleability of goods and the sound judgment and honesty of business men. Bankers need to keep reserves, not primarily because a large volume of exchanges is being conducted through credit, but because their customers regularly conduct some exchanges by means of commodity money and look to them to supply what they need. The amount of commodity money they find it is necessary to keep depends upon the amount so used regularly, but this amount has little to do with the volume of exchanges effected through credit. It does not even bear any fixed relation to the balances which have to be settled between banks, cities and countries. These can be and are more often settled by credit arrangements. Bankers also need reserves to fall back upon when credit is impaired, but at such times their efficiency is, at the best, very limited. The most useful means of meeting such exigencies is the more extended use of those forms of credit which are not impaired and which can serve as means of payment. If the credit has resulted from genuine commercial transactions, the successful completion of which depends simply upon the running of our industrial machinery in the usual fashion, it will be as safe as possible, whether bank reserves be large or small in proportion to its volume; under other circumstances it will be unsafe and dangerous, no matter how small its volume or how large the reserves. No amount of reserves can undo the evils of false credit or restore the losses of its victims. When business men indulge in such practices on a large scale, disaster will follow as surely as night the day. When they do business on the basis of sound credit, they can safely conduct

almost any amount without exerting undue pressure upon bank reserves.

Holding this view of credit and of its relation to bank reserves, I cannot but feel that Professor Kinley's intricate and ingenious reasoning regarding the marginal utilities of the various elements of the medium of exchange and the striking of an equilibrium between them is mostly beside the mark. I consider the doctrine of marginal utility very useful in the explanation of the manner in which we value the goods directly applicable to the satisfaction of our wants, but I do not believe we can get much assistance from it in the explanation of the relation between so-called social needs and the instrumentalities which satisfy them. Society is not a person which feels needs and applies goods to their satisfaction after the manner of men of flesh and blood. The term social need is simply a convenient but inaccurate expression for the resultant effect of the real needs felt by actual persons, and the means of their satisfaction must be analyzed, and reduced to the goods actually used by actual persons before we can begin the study of their valuation. When this process has been applied to the medium of exchange, we shall find that we have to do either with consumer's goods which are bartered for other consumer's goods and then rebartered, or with a mere process which enables us to dispense with this three-cornered act of barter. When we exchange one consumer's good for the others, which Professor Kinley calls commodity money, we proceed upon the basis of their value as consumer's goods. There is nothing in the situation which requires or suggests any other basis of procedure. When we dispense with the commodity medium there is no intermediate good to

value. We have now to do with credit instruments, the valuation of which depends upon entirely different principles.

The use of a consumer's good as an intermediary in exchanges withdraws some portion of it temporarily from its consumption uses and affects its marginal utility in those uses in presisely the same manner as storing it in any other form. The marginal utility of wheat and of all the products into which it enters is affected by storing it up in the ware-houses and temporarily keeping it away from the active market. In like manner, the marginal utility of gold is affected by its use in public and private reserves and as a circulating medium. The fact that gold possesses a very high degree of durability and that the quantity of it is very large is, as Professor Laughlin has shown, important in the explanation of the phenomena of its value, but it does not alter the principles upon which its valuation is based or the essential features of the valuation process.

Before closing I should like to say a word regarding the distinction between fixed and circulating credit which Mr. Andrew has drawn. I do not regard this distinction as important in the discussion of the theory of prices or of the part played by credit in exchanges. According to my understanding of the matter, fixed credit is frequently the basis of circulating credit and may be transformed into it almost at will. The two classes are not, therefore, mutually exclusive. They overlap to the extent that the owners of fixed credit wish to change it into the circulating form. It is, in my opinion, also a grave mistake to suppose that the fixed forms of credit do not assist in the mediation of exchanges, and that they *necessarily* occasion a demand for the circulating

form or for commodity money at the date of their maturity or at any other time in their history. As before explained, they bridge over the gap of time intervening between the first transfer and the counter-transfer which completes the exchange. The goods sold are ultimately paid for by goods bought or sold by somebody else and not necessarily by commodity money or the circulating forms of credit. The deferring of a payment frequently renders the use of money in any form unnecessary. This is sufficiently apparent in the simple form of book accounts, but it is equally true in the case of the more refined and more complicated forms of credit.

The actual facts regarding the relation between the credit and commodity portions of currency and between the medium of exchange and prices seem to me to be so obscured by the habits of thought and predilections introduced by the old quantity theory that I almost despair of anyone who approaches the subject of prices from that point of view and devotes his energies to attempts to save some remnants from the ruin to which that theory seems to me to be doomed. However, I welcome discussions such as Professor Kinley has given us in this paper and in his recently published book, because I believe that the elaborateness, intricacy and difficulty of such efforts will hasten the day when more economists will seek a solution of the problems involved by a simpler, less devious and less laborious route.

IRVING FISHER: It seemed to me as I was listening to these papers I could give assent to almost all the positive propositions, but dissent to many of the negative ones. It is possible to approach the money question from so many points of view that it seems ex-

tremely dangerous to deny a proposition as true simply because you know some other proposition to be true.

I think the papers presented harmonize more than they appear to do on the surface, and some apparent contradictions could be avoided and some confusion prevented if we bear in mind that value of money, at the outset, has two distinct meanings. Its marginal utility is one meaning; its purchasing power another.

When the causes operating on the side of money are considered, these subjective and objective values will run somewhat parallel; but when we consider the causes which affect goods, the effects upon the two kinds of value may be quite different. The two values are very simply related because, as we know, the price of any commodity, or price in general, is simply the ratio of two marginal utilities, and the price level is therefore nothing more nor less than the ratio of the marginal utility of goods to the marginal utility of money. If we could only assume that the marginal utility of goods would remain constant we could carry with us both of these values and change alternately from one to the other without confusion.

There are, then, two steps. First, to determine the purchasing power of money; and, second, to determine its marginal utility.

The purchasing power of money is dependent upon what Professor Newcomb calls "the equation of societary circulation." This is a form of the quantity theory, or, at any rate, it includes the quantity theory of money. It is that the amount of money work done by money is equal to the amount of money work done on goods. That is, that the volume of circulating medium multiplied by its rapidity of circulation on the one hand

is equal to the price level multiplied by the volume of business, (measured at a level of standard prices, and not at the level of current prices) on the other.

The price level thus depends upon three factors—quantity of circulating medium, its rapidity of circulation and the volume of business done. And if we can assume for a moment that the rapidity of circulation remains constant and the volume of business done remains constant, we should then arrive at the quantity theory, that the price level is directly proportionate to the circulating medium. In this sense, and this sense only, that theory seems to me valid.

But when we attempt to disprove this theory, as it would seem very easy to do by statistics, taking the price levels at different times and comparing them with the quantity of circulating medium, we find naturally no relation. To take an illustration, it is somewhat similar to the relation which holds true in an automobile between power and speed. The automobile maker will tell you when you buy an automobile that there is a direct relation between the power and speed. Yet if one were to sit in the automobile and watch the speed indicator and power lever and tabulate statistically the two, it would make two curves which would by no means run parallel. He might simply conclude, erroneously, that this relation did not exist, because other things have been omitted from the calculation. He might and would find many times that the opposite relation proves true, because the greatest power is put on when you are climbing hills and the speed is necessarily slow.

So, as Professor Laughlin has found in his Principles of Money a comparison between price level and quantity

of money, regardless of the velocity of circulation and quantity of business transacted, necessarily shows very little relationship.

The real problem to be settled is not the quantity theory which, in the sense that I have described, seems to me, should be accepted at the outset, but to proceed further and discover the other quantities in this equation. Of itself it does not fix the price level, because one equation cannot determine four unknown quantities. We need the other relations between the velocity of circulation, the quantity of business and the volume of currency; and it is the study of these relations which we should take up. And here statistical methods, it seems to me, may be applicable and should be followed out. Pierre des Essars, of Paris, has tried statistically to show what the circulation of bank deposits is, and his statistics are somewhat astonishing, showing that it fluctuates in the same place and between places. For instance, in Paris the velocity of circulation of the deposits varies from a turn-over of something like one hundred a year to two hundred a year, while in the banks of Greece and Portugal the turn-over is only from three to ten a year. In this country statistics are a pressing need. So far as I know there are none, except those few which have been privately collected. In New Haven the rate varied from fifteen to twenty-five, in one bank, while in a small town in California the turn-over was less than once a year, although the deposit was non-interest bearing.

We see, then, that we know practically nothing of the velocity of the circulation the variations in which, alone, are enough to make non-applicable any comparison between the quantity of money and the price level,

while the business transacted causes a further perturbation. A complete treatment of the subject taking account of all four variables has never yet been made.

THOMAS N. CARVER: It would probably be agreed by every one that under a system of free and gratuitous coinage of the standard metal, and under conditions where the standard metal was actually the basis of the circulation, the value of money of any kind would have to correspond to the value of the bullion of which the standard money was coined. In this country, for example, the value of a dollar must always be the value of 25.8 grains of standard gold, so long as gold remains the basis of our currency. Therefore, credit instruments of any kind could influence the value of money only in so far as they influenced the value of gold bullion, unless something should happen by which gold should cease to be the actual basis of circulation. Is it possible for the extension of credit to lower the value of gold bullion? It seems to me that if credit is in any sense a substitute for gold coin,—that is to say, if the business of the community can be carried on with less gold coin when there is a large extension of credit than would be necessary if there were no credit at all, it would logically follow that the use of credit must tend to cheapen gold. For if by reason of the use of credit less gold is needed in the currency than would otherwise be necessary, there is more gold available for use in the arts; and, the supply of gold in the arts being increased, this would tend, other things equal, to cheapen it, or to give less purchasing power to 25.8 grains of standard gold bullion. In so far as the use of credit cheapens gold bullion, it correspondingly cheapens

money. Now credit may be looked upon as an extension of the supply of money, if you define credit instruments as money; or, if you insist upon a narrower definition of money which would exclude credit, then credit must be regarded as reducing the demand for money. From either point of view the result on the value of money is the same.

But another question very fully discussed in the preceding papers is whether or not the law of demand and supply can of itself give a value to money greater or less than the value of the material of which it is composed. And upon this question I should like to state the following series of propositions without explanation or qualification.

I.

The value of money differs from that of an ordinary commodity,—bread, for example,—in the following particulars:

1. Bread derives its value,—i. e. purchasing power—from the fact that it serves its distinctive purpose—that of satisfying hunger; whereas money derives its power to serve its distinctive purpose—that of facilitating exchange—from the fact that it possesses value or purchasing power.

2. When the physical quantity of bread is increased, other things equal, the want to which bread ministers is better satisfied than it was before, even though the total value of all the bread diminishes; whereas an increase in the physical quantity of money does not satisfy the need for money any better unless the total value or purchasing power of money is also increased.

3. The demand for bread is a demand for a quantity of nutriment which bears a close relation to the number

of pounds; whereas the demand for money is a demand for a quantity of value or purchasing power, and this does not bear the same relation to the number of pounds of money which the nutriment of bread does to the number of pounds of bread.

4. The supply of bread is the quantity of nutriment available, whereas the supply of money is the quantity of value or purchasing power available.

5. Since the demand for money is a demand for value, and the supply of money is a supply of value, it must follow that the law of demand and supply can not apply to the determination of the value of money *in the same way* that it does to the value of bread, for:—

6. It is one thing to say that the demand for nutriment and the supply of nutriment together determine the value or purchasing power of a given quantity of that nutriment; but it is quite another thing to say that the demand for value or purchasing power and the supply of value or purchasing power together determine the value or purchasing power of a given quantity of that value or purchasing power.

7. Assuming that nutriment is the quality which makes bread useful, and that warmth is the quality which makes clothing useful, it would be quite proper to say:—

The demand for $\left\{\begin{array}{c}\text{nutriment}\\ \text{or}\\ \text{warmth}\end{array}\right\}$ and the supply of $\left\{\begin{array}{c}\text{nutriment}\\ \text{or}\\ \text{warmth}\end{array}\right\}$ together determine the value of a given amount of $\left\{\begin{array}{c}\text{nutriment}\\ \text{or}\\ \text{warmth}\end{array}\right\}$; but it would not do to say:—

The demand for $\left\{\begin{matrix}\text{nutriment}\\ \text{or}\\ \text{value}\end{matrix}\right\}$ and the supply of $\left\{\begin{matrix}\text{nutriment}\\ \text{or}\\ \text{value}\end{matrix}\right\}$ together determine the value of a given amount of $\left\{\begin{matrix}\text{nutriment}\\ \text{or}\\ \text{value.}\end{matrix}\right\}$

II.

On the other hand, money obeys the law of demand and supply after a fashion, for:—

1. The supply of gold distributes itself automatically between the arts and the currency just as the supply of any other commodity distributes itself automatically among its various uses, that is to say, in accordance with the law of demand and supply.

a. When for any reason there is a disproportionate share of gold in the currency as compared with the arts, it shows a tendency to leave the currency and go into the arts, yet this could not happen if it did not at the same time show a tendency to become dearer in the arts than in the currency.

b. *Vice versa.*

2. The only reason why gold maintains the same value in the arts and the currency is that it can be transferred from one use to the other without cost.

a. If the mint should charge a seignorage of one per cent., no one would take gold to the mint for coinage unless the coin would be worth one per cent. more than the bullion. This would reduce the supply of coin. If it were impossible for scarcity to give a value to coin somewhat greater than its bullion value, this seignorage would cause the coin to disappear altogether. But if

money is subject to the law of demand and supply, the seignorage would only reduce the supply of coin to that point which would give it a value one per cent. above its bullion value.

b. If it cost one per cent. of its value to reduce gold coin to bullion, no one would have any reason for doing so unless the coin were one per cent. cheaper. A disproportionate share of gold in currency, as compared with the arts, could not be automatically readjusted until the price of bullion had risen one per cent., or the value of coin had fallen one per cent. below its bullion value.

III.

1. There is no such thing as a law of demand and supply apart from the law of decreasing utility of successive increments of supply. Therefore the law of demand and supply can apply to money only so far as money can be brought under the law of decreasing utility, or of "final utility."

2. To say that the utility of a piece of money is the utility of the things which it will purchase is devoid of meaning. The question is: What determines the number of things which it will purchase?

a. If a loaf of bread will exchange for a peck of potatoes, it is because the final utility of a loaf of bread is equal to that of a peck of potatoes.

b. If a piece of money will exchange for a barrel of flour, it is likewise because the final utility of the money is equal to that of the flour.

c. To say that the piece of money will purchase something whose final utility is equal to that of the money, and then to define the final utility of the money *as consisting of* the final utility of that which it will purchase, is a crude case of reasoning in a circle.

3. The utility of money is the sum of the advantages which it affords to society, or the advantages of carrying on business with money rather than without money. The oft-explained disadvantages of barter give us, in negative form, a statement of the utility of money. Though goods are, as Professor Scott says, eventually paid for with other goods, yet it is found convenient to use money as a medium, and this convenience is a measure of the utility of money.

4. The final utility of money is the advantage which the final increment affords. Find out how greatly exchange is facilitated by means of this final increment, or how much easier it is to carry on the business of the community with this last increment than it would be with one less increment, and you have the measure of the final utility of money.

IV.

Some exchanges could scarcely be made at all without the use of money. Some could only be made with great difficulty, some with comparatively little difficulty, some could be made as easily without money as with it, and some could even be made more easily without it than with it. This gives us a law of decreasing utility of money. As much money as would enable the community to carry on those exchanges which could not be made at all without money, may be said to have a high degree of utility. As much more as would enable the commuuity to carry on those exchanges which could only be made with considerable difficulty without money would have a considerable degree of utility. As much more as would enable the community to carry on those exchanges which could be made with very little difficulty without money would have a low degree of

utility, while as much more as would enable the community to carry on those exchanges with money which could just as well be carried on without it, could be said to have no utility at all.

Let us take a concrete case. A merchant could scarcely do business at all without *some* cash in his drawer. This is a need of a real man of flesh and blood. But the exact amount which he must have is not fixed. He may keep more or he may keep less. If more of his working capital is in the form of cash, he must have less in the form of goods on his shelves. If less is in the form of cash, he may have more in the form of goods. When it comes down to a question of final increments the question is: Will it pay better to have one more dollar in his cash drawer and one less on his shelves, or will it pay better to have one less dollar in his cash drawer and one more on his shelves? If he decides that the inconvenience of doing business with a little less cash would overbalance the loss from having a few less goods on his shelves, he will provide for the extra cash. This gives a view of the final utility of money to that particular man. Since something like this is true of each and every individual doing business, it is true of the business community as a whole.

H. R. SEAGER: I want to speak of two points that were brought out earlier in the discussion. Professor Laughlin has provided us with a very interesting diagram indicating, as he views the subject, that the fall in prices from 1879 to 1903 was not due to a scarcity of gold, but rather—gold having increased at an unprecedented rate during that period—to a plethora of goods.

Now, I agree perfectly with Professor Laughlin's diag-

nosis of what has occurred. What has occurred is undoubtedly a more rapid multiplication of goods than of gold, and yet I cannot accept his description of the matter—the statement that there has been no scarcity of gold. It seems to me that what we mean by "scarcity" or "plenty" in this connection is comparative scarcity or plenty. If conditions had been perfectly normal, if there had not been any special resistance to the increase of gold in comparison with the increase of commodities, what would have happened during those twenty years would have been a relative increase in gold, to keep pace with the enormous increase in commodities and fairly stable prices. What actually did happen was an enormous increase in commodities, a somewhat smaller increase in gold and consequently a fall in prices, due, it seems to me still, to the scarcity of gold, in the sense in which it seems to me we should use the term in this connection.

Professor Scott said that the important thing in connection with the use of credit is that ultimately goods pay for goods. It seems to me that for our purpose that is not the important thing. That is an important proposition, but it is just as true of the use of money as of the use of credit—ultimately, in connection with all exchange, goods pay for goods. Our media of exchange are simply devices for facilitating what is ultimately, that is, at last analysis, barter. But the question that we are considering, as I understand it, is the causes that determine the value of money. With reference to that problem, it seems to me still, that the important thing about credit under present conditions is that credit as a medium of exchange, is a promise to pay money; and that the use of credit in nearly every case involves some de-

mand for money, some demand for standard money. Professor Andrews has brought out very clearly the flexibility of the relation between credit and the demand for money, and Professor Kinley brought out the same point. I think we must all agree that there may be an increased use of credit without any increased demand for money, and yet it seems to me that the fundamental fact for our discussion is that credit is a promise to pay money, and normally involves a demand for standard money; that the expansion of credit normally means an increased demand for standard money to serve as a reserve, and in that way does operate upon the volume of money in the country.

J. LAURENCE LAUGHLIN: I wish to disclaim the explanation assigned to me by Professor Seager of the fall of prices from 1879 to 1900 as due to any plethora arising from over-production. My whole point was that there had been this enormous increase in the production of gold and we should have expected a fall in its value; but we found that the increased productivity of our labor and capital had yielded more units of product than before and permitted the sale of each unit of that product at a lower price. The greater productivity of an industry, so far as price is concerned, simply showed itself in a lower price per unit.

Also, I would not hold, as Mr. Andrew suggested, that the case of unconvertible paper was one to which the quantity theory as generally understood applies. In my humble opinion that is one of the cases in which it does not apply at all.

I next should like to say just one word in regard to Professor Kinley's argument. I think it is a great misfortune, by the way, that we cannot have two or three

hours of discussion of these problems after we have had the papers. The point here is, how in actual fact the principles of demand and supply operate in working out exchange value between goods and money, and what the peculiar nature of demand for money is. It was Professor Carver who suggested the real question as that of working out the exchange value between the commodity and the bullion of which the standard money is made. We have a clear case here, it seems to me, and on that we ought to thresh the matter out.

If we were trying to get the exchange value between steel and wheat, if you had talked about the demand and supply of steel, and then continued your examination to the substitutes for steel, (as credit was a substitute for money), and if you had kept on discussing the price of steel and the nature of the demand for and supply of steel, you have not yet solved the whole problem of exchange value between steel and wheat. You must still discuss what influences were operating on wheat in order to get the exchange value between steel and wheat.

Now Professor Kinley's discussion of money and of credit went on the assumption that, if you could discuss the relative marginal utilities of the different media of exchange, you would be getting at the value of money. This is only one-half the problem. Moreover, so far as I could understand him, it was assumed throughout that when you withdrew a certain demand from a certain kind of money, or increased it, it affected the value of that money. That position carries with it an acceptance of the quantity theory, which I understand, in general, he rejects. According to his statement a limitation of its quantity changed its value. Now, even if we have settled the facts as to the supply of "money" we have not yet solved the problem of the exchange value be-

tween that money and other things. He has merely discussed the value of one product and its substitutes without touching what seems to me to be the pivotal thing existing in the relation between the standard, and the commodities with which we are concerned.

We are trying to solve the price problem or the question of the exchange ratio between something that we call "money" and these goods. The problem must be worked out in a more exact and clear discussion of the nature of the demand for money, and the actual price-making process by which the exchange ratio between these goods and that standard is reached.

HENRY B. GARDNER: The lines of argument by which I reach my own conclusions on this subject are somewhat different from any that have been presented to-day, and it is for that reason I should like to put it to test.

In the first place, the way in which the question is usually stated seems to me somewhat unfortunate. What determines the general level of prices? Much time has been spent in showing that the problem of general prices is simply the problem of a great number of special prices. If, instead of putting to ourselves the question of general prices, we consider the value of money, its exchange power in other commodities, we have simply the cause of the exchange value of a particular commodity. It does not alter the character of the problem, it alters the statement of the problem. The principal problem connected with the value of money is, Is there any peculiarly close relation between a change in the quantity and change in value—a pecu-

liarly close relation, as compared with the corresponding relation existing in the case of other commodities. which justifies us in applying to the value of money what is known as the quantity theory?

In the first place, we must recognize, for reasons that have been very clearly brought out, that we cannot solve this problem statistically. We must fall back upon general economic principles. And in doing that I have always felt that it was necessary to assume these two cases: First, the case of an exchauge medium made up of standard money; and served the modification of an exchange medium made up largely of instruments redeemable in standard money.

Take the first case. What determines the value of money where an exchange medium is made up of standard money? If the quantity increases the value would tend to fall; if the quantity diminishes the exchange value would tend to rise. And right here I want to refer to a statement Professor Laughlin just made, that in considering this question of the effect of change in quantity on change in value, we must take account of the changes which have coincidentally been going on in connection with other commodities. We must rather assume that other things remain constant. In the illustration which he used we certainly have no right to take any account of changes connected with the production of wheat if we are trying to discover the effects of certain changes in connection with steel on the general purchasing power of steel. We must assume that conditions in regard to wheat and every other commodity have remained constant while this change has been taking place in steel.

In the case of most commodities we know perfectly

well that as the quantity increases, the value falls, but does not fall in proportion to the increase in quantity. The desire for the commodity is a limited desire. As its quantity increases its marginal utility falls rapidly, and in a short time we find that the total expenditure for that commodity has changed. It is only when the total expenditure for a commodity remains the same, without regard to the change in quantity of the commodity, that the value per unit will change in direct proportion to quantity.

The proposition is, then: Is there anything peculiar in connection with the demand for money—does the demand for money tend to increase or vary in direct proportion to changes in its value? Does the purchase power of the whole quantity of money remain constant without regard to changes in its quantity?

Now it seems to me, unless the change in the quantity of money has been of such a character as to destroy confidence, so that people who formerly exchanged goods for money are now unwilling to exchange goods for money, that in general the total purchasing power, the quantity of goods to be exchanged, remains the same without regard to the change in quantity of money—the total quantity of goods exchanging for the total quantity of money. Under these circumstances we have a commodity in which the value per unit must vary in direct proportion to the change in quantity.

WM. W. FOLWELL: In this discussion we have forgotten the payroll. That must be taken to account in any discussion of value. Adam Smith had an idea that there is a relation between labor and value, and after many years of study on this subjeet I am insensibly and unavoidably drifting to the position of Adam Smith.

F. R. Clow: I wish to make just one suggestion. It would help us to make a distinction between the monetary unit and the standard of value. We have spoken all along as if the dollar, for instance, were identical with 23.22 grains of gold. It seems to me that that is not always true. For instance, on a Saturday at the appearance of an unfavorable bank statement, the prices lowered of the entire list of stocks. There you have an increase in the purchase power of the dollar. Now, did 23.22 grains of gold increase in value also in proportion to other commodities? Probably not. So we see the unit may vary without the variation in the value of the standard commodity.

Of course, that variation cannot last long. It cannot be very considerable. The connection is chiefly through the mechanical process of coining. But coining takes time, and therefore, the way is open for some variations of the unit from the standard.

David Kinley: Most of the points I had jotted down have been answered for me by preceding speakers, and there are but two points left to which I wish to call attention.

In the first place, Professor Scott's own language, while objecting to the theory that there is a relation between reserve and the volume of credit was a confession of the existence of such a relationship, because he talked about the "undue" expansion of credit,—undue with reference to the reserve,—and a relationship of some kind. Now all I claim is that there is a relationship of some kind. I did not assume to give a mathematical expression to it to-day.

The other point is simply this: I contend that the

point of view which I assume for my purpose, that of society as a whole, is entirely competent and logical as a basis of argument. The reason why I assumed it was simply this. We regard society as a community determining what method of perfecting and making its exchanges is for the time being the cheapest, and that enables us to say that the marginal utility of money at that point is its purchasing power. There is a point where the marginal utility of money, subjectively considered, and its purchasing power, are identical, and that is the point I preferred to speak from.

CAUSES OF THE UNION-SHOP POLICY

J. R. COMMONS

The open shop controversy, in its extreme form, is peculiar to America. The British labor delegates, two years ago, were surprised to see the bitterness of the American unionist toward the "scab." This feeling has its roots in conditions and history peculiar to this country. For three generations the American workingman has been taught that the nation was deeply concerned in maintaining for him a high standard of living. Free traders objected that manufacturers would not pay higher wages, even if protected. Horace Greeley, who, as much as any other man, commended the "American System" to wage-earners, admitted the force of the objection, but he held that socialism, or, as he called it, "association," would share the benefits of the tariff with them. But this must come through the workmen themselves. Some of them tried it. The communistic experiments failed. They tried co-operation, education, politics. Neither did these seem to reach the high aims of protection. Meanwhile they were discovering the power of the strike. By this kind of association those who could hold together found themselves actually sharing the benefits of protection which Greeley mistakenly predicted for his fantastic kind of association.

But the gains from strikes were temporary. The federal laws which protected manufacturers against the products of foreign labor, permitted them to import the foreigners themselves. In many cases strikes were defeated by the immigrants, and in many more cases the immigrants went into the shops to share the gains won

by the strikers, or gradually to displace them with their lower standards of living. With a unanimity never before shown the unions entered the political field and got the Chinese exclusion acts and the alien contract labor laws. These theoretically rounded out the tariff system, and they somewhat lessened the pressure on the skilled trades. But the amount of immigration itself was not lessened. Rather have the laws been evaded and the influx has swollen greater than before, while the sources have shifted to still lower standards of life. By a minute division of labor and nearly automatic machinery unknown in any other country, the skilled trades were split into simple operations and places created for the unskilled immigrants. The strike thus seemed likely to lose permanent results. The unions were unable in politics further to check immigration. Endorsing the tariff on products as a necessary first step they were left to enact their own tariff on labor. The sympathies of the American public were with them, but these sympathies, lacking the historical sense, have recently somewhat declined, when it is found that the union theory is that of protection and not that of free trade. The British unions are protected by long periods of apprenticeship. The non-unionist is only another Englishman who can be talked to, and whose class feelings are strong and identical with those of the unionist. The employers are not protected by a tariff, neither have they imported foreign workmen. Division of labor is not minute, and the skilled workman is not directly menaced by the unskilled. But the American unions have very little industrial or racial protection. Apprenticeship is gone, except as enforced by them against the protests of employers. In order to enforce this and other measures needed to keep wages above

the market rate, the unions found themselves compelled to enforce the rule that no one should enter the shop except through the union. Without this rule their efforts were nullified.

It naturally is objected that, in comparing the closed shop with the tariff, a corollary cannot be drawn from the laws enacted by government to the rules imposed by a union. The presumption is in favor of free trade, and only the sovereign power has the right to interfere, and that in the general interest. Where private associations restrict competition the act becomes conspiracy. But here the unions found that public sympathy and judicial decision have made an exception in their favor. While a combination to put up prices is illegal, a combination to put up wages was gradually relieved of legal penalty. It was felt that the laborer was the weaker party to the bargain; that the same public policy which would keep down prices to the level of domestic competition, would encourage the laborer to keep wages above the level of immigrant competition. Capital could take care of itself, and the capitalist who failed in competition would only drop into the ranks of wage-earners, but the laborer who failed had no place lower to drop. Consequently, while, on the one hand, the doctrine of protection to manufactures was gaining hold, on the other hand its corollary, the exemption of labor from the conspiracy laws, was being established.

Some decisions went even further. Granting that it is not criminal conspiracy to quit work in a body in order to benefit their own members, it is not easy to draw the line at quitting work in a body to secure the discharge of a foreman or a non-unionist whose acts are injurious to the members. Though the decisions here are conflicting, yet there were early decisions sustaining

this right, and so essential is it to their existence and so persistently have the unions asserted it, that, amidst conflicting decisions, many of them have established the union shop. Here the logic of politics has been with them, and the politicians have been more consistent than the manufacturers, for the high wages to which protection campaigners point, are usually wages kept high by a closed-shop policy. Even the wages in unprotected industries like the building trades, which depend mainly on the closed shop, are offered as evidence of protection's benefits, while in the protected industries it is the closed-shop wages of tin-plate workers, smolders, blacksmiths, etc., and not the open-shop wage of woolen and cotton textiles, to which attention is directed.[1]

A curious flank movement has taken place in the use of the terms "closed" and "open" shop. As the unions originally employed the terms, a closed shop was one which was boycotted or on strike, and in which consequently the union forbade its members to work. An open shop was one where union men were permitted by the union to get employment if they could. To declare a shop open was equivalent to calling off a strike and boycot. The terms as now defined are different. The closed shop, instead of being non-union, is the union shop. And the open shop is declared open by the employer to admit non-unionists, and not by the union to unionists.

Yet, even from this new standpoint, the terms are not clearly distinguished. Many employers have what they call open shops, and yet they employ only union men. The union would say that these are union shops, whereas the public generally would call them closed.

[1] See Republican Campaign Text-Book, 1904, pp. 86, 91, 223, etc.

The confusion arises from different points of view. The employer has in mind the contract or trade agreement with the union. He looks at it from the legal or contractual side. The union has in mind the actual situation in the shop. They look at it from the side of practical results. The agreements made in the stove industry, in bituminous coal mining, in three-fourths of the team-driving agreements, in railway machine shops, and many others, are plainly open-shop agreements, where it is often even stipulated that the employer has the right to employ and discharge whomsoever he sees fit, only reserving that he shall not discriminate on account of union membership or union activity. Many agreements are silent on the question of employment and discharge, and in such cases the presumption is in favor of the employer's freedom in selecting his men.

It is evident that with these different points of view it is difficult to reach an understanding. Clearness would be promoted by adopting a use of terms which would bring out the above distinctions as they are found in practice. In doing so the closed shop would be viewed from the side of the contract, and would be designated as one which is closed against the non-unionist by a formal agreement with the union; the open shop as one, where, as far as the agreement is concerned, the employer is free to hire union or non-union men; the union shop as one where, irrespective of the agreement, the employer, as a matter of fact, has only union men. Thus an open shop, according to agreement, might in practice be a union shop, a mixed-shop, or even a non-union shop. The closed shop would, of course, be a union shop, but the union shop might be either closed or open.

The contention of some union defenders that the

term "closed shop" is a misnomer, I do not agree with, if its use is limited as here proposed. They say it is not closed, because any competent man can get into it by joining the union. What they really mean is that the union is an open union, but this is another question, and an important one. Much can be said for a closed shop if the union is open, but a closed shop with a closed union cannot be defended. The use of terms above proposed makes it possible to draw these essential distinctions and to discuss each separate question of fact by itself and on its merits.

The historical steps were somewhat as follows. First, the union got the union shop by quitting work, or threatening to quit, in a body. Next they got the closed shop by a contract with the employer. If the employer would not make a closed-shop agreement, they either retained their original right to quit if he hired a non-unionist, or their open-shop agreement provided for negotiation whenever a non-unionist became obnoxious. In this way the open-shop agreement might mean, in individual cases, the union shop in practice.

Now the significant fact respecting the agreements just mentioned in the coal, stove foundry, railway shops and other industries, is that, while they are open-shop agreements, they are, on the whole, satisfactory to unions which in other branches of their work are most uncompromising for the closed shop. In all cases their satisfaction is based on three or four considerations. In the first place, the agreement is made, not with each shop, but with an association of employers, including the strongest competitors in the industry. It is to the interest of such an association to require all of its members faithfully to observe the agreement, because it

places them all on the same competitive level as far as wages are concerned. The employer who would violate the agreement would get an advantage over the others in the largest item of his expenses. This the others, in self-interest, cannot permit, and consequently as long as he is a member of the employers' association, the union is relieved of the burden of enforcing the agreement, and the employers themselves, as a body, assume the responsibility of doing what the union could do only by means of the closed shop or the strike. If the employer persists in violating the agreement, after his association has exhausted its powers of discipline, he is expelled, and then, being no longer protected by his fellow employers, he is left to the tactics of the union.

In the second place, the agreement is made, not only for members of the union, but for all positions of the same grade, whether filled by union or by non-union men. No employer, therefore, can get an advantage, in lower wages or longer hours, by hiring a non-unionist. No amount of protest or solemnity of promise, and, especially, no appeal to the Declaration of Independence from those protected by a tariff that violates the Declaration, can persuade the unions that the employer wants the open shop except to get his labor below the union rate. Some employers and some associations of employers, as in the machinery line and in iron and steel, have been frank enough to admit this, when they insist that their agreement with the union covers only union men, and that they are free to make a lower scale of wages for non-union men. But, as a rule, an agreement cannot stand for long on such an understanding, and very soon it goes to pieces in a strike for the closed shop or the dissolution of the union. There have been isolated exceptions where the union is strong, and thinks that the

non-unionist, in order to get the higher rate of pay, will join the union. But, in general, only when the agreement covers the non-unionist as well as the unionist, and when the employers show that they have the power and the will to enforce it, can the union consent to the open shop. Even this takes time, for power and good will are shown only through experience, and the workmen have undergone many bitter experiences of dishonesty, and many more experiences of inability, through the pressure of competition or changes in management, to live up to agreements honestly made. The stove founders, the soft coal operators, and others, after several years of associated action, seem to have won confidence in their ability and honesty of purpose in enforcing their open-shop agreements, and for this reason, the unions, though not entirely satisfied, are not driven by their more radical members to demand the closed shop.

In the third place, that clause of the agreement which provides for the so-called arbitration of grievances covers all matters of discrimination as well as all matters of wages, hours and rules of work. By discrimination is meant all questions of hiring, discharging and disciplining both union and non-union men. In this respect it seems to me a mistake was made by the Anthracite Coal Strike Commission in its award as interpreted by the umpire, Colonel Wright. The Commission had awarded that no person should be discriminated against on account of membership or non-membership in any labor organization, and had provided a board of conciliation and an umpire to decide any disagreement that should not be settled by the parties concerned. Under this clause the umpire stated the principle involved as follows: "A man has the right to quit the service of his employer whenever he sees fit, with or without giving a

cause . . . . . . and the employer has a perfect right to employ and discharge men in accordance with the condition of his industry; he is not obliged to give a cause for his discharge. . . . "

The mistake in applying this principle of reciprocal rights lies in the fact that the union, under the agreement, had given up its right to strike. Having done so, it gives up its right to protect a member against discrimination or unjust discharge. In lieu of settling such a grievance by a strike the agreement sets up a tribunal to investigate and decide according to the facts. Of course, individuals retain their right to quit, and the employer retains his right to discharge, yet since the union has abandoned its right to strike, in view of the tribunal, the employer must be held to have abandoned his right to discharge a union man whenever the union alleges a grievance and appeals to the board. The employer always claims that discrimination was not intended, but this is a question of fact to be determined by the tribunal. Otherwise the most vital injury, one that concernes the very life of the union, is taken out of the hands of the board of conciliation and falls back upon the original remedy of the union—the strike. This is well understood in all trade agreements except the peculiar one in the anthracite coal industry. Every grievance or alleged grievance in the hiring or discharging of union or non-union men is taken up by the officers of the two associations and settled on its merits, under the terms of the agreement. Under no other condition could the union be assured against discrimination or unjust discharge; which is but another way of saying, under no other condition could it trust itself to an open-shop agreement. With this protection, the case of each non-union man can be taken up in conference by the

officers of the two associations, and he can be disciplined the same as a union man for any acts injurious to the members of the union or menacing to the agreement.

These three conditions, I think, have been found essential in most open-shop agreements that have lasted for any length of time: namely, a strong and well-disposed association on each side; the same scale of work and wages for unionist and non-unionist; and the reference of all unsettled complaints against either unionist or non-unionist to a joint conference of the officers of the union and the association.

In describing these conditions I have indicated, conversely, certain conditions under which the union is forced in self-protection to stand for the closed shop. Such cases are those where there is no employers' association, or where the employers' association cannot control all of its members or all of the industry, or where the association is hostile or has a menacing, hostile element within in; as, for example, when it does not insist that its non-union or open-shop members shall pay the union scale. In these cases the maintenance of the scale and the life of the union depend on maintaining the union shop. Whether it shall be a closed shop or not, *i. e.*, whether it shall be unionized by a contract in which the employer binds himself to employ only union men, and becomes, as it were, a union organizer, or whether, as far as the trade agreement is concerned, it shall be an open shop, depends on circumstances, and the same union will be found practicing both methods, according to the locality or shop.

The closed-shop contract has recently been attacked in the courts, and in some cases overthrown, on the ground of illegality. Without branching into that side of the question, it should be noted in passing that such

a contract usually carries a consideration. If the union has a label protected by law, this is a valuable consideration which the employer cannot be expected to enjoy unless he agrees to employ only union men, and consequently all label agreements of the garment workers, brewery workers, boot and shoe workers, and others, are closed-shop agreements. However, the main consideration to the employer is the enlistment of a responsible national authority on the part of the union to compel the local union or shop to fulfill its side of the agreement. The local union is moved by personal feelings, but the national officers have wider responsibilities and a more permanent interest in living close to the letter and the spirit of the agreements. This is the consideration distinctly stated in the agreements of the typographical union with the newspaper publishers' association, several of whose members have non-union or open shops, it being agreed that the national union will underwrite every closed-shop agreement made by a publisher with a local union. The same consideration is found in the longshoremen's agreements, in all label agreements, and though not always expressly stipulated, it is understood to exist, more or less, in all agreements whether actually underwritten by the national officers or not. If the employer wishes the national union to be responsible for its local members he logically will agree to employ only members of the union. The open shop, by the very terms of the contract, leaves it to the employer to enforce the agreement by hiring non-union men, but the closed shop makes the national union responsible by requiring it to discipline the local union or even to furnish other union men. It is this consideration, more than anything else, that has led the stove founders and other employers' associations, under open-

shop agreements, to watch without protest the gradual unionizing of nine-tenths of their shops.

There is no doubt that the object which all unions aim to reach is the complete unionizing of the trade. In support of this there are two kinds of arguments, one of which I should call sentimental, the other economic or essential. Certain of the economic arguments I have just indicated. But there are some places where these do not apply; and a union which relies solely on a sentimental argument cannot win the support of the public, which eventually makes the laws and guides the decisions. This sentimental argument holds that he who is benefitted should bear his share of the expenses of the benefactor. The union which raises wages and shortens hours should be supported by all whose wages and hours are bettered, and the non-unionist, because he refuses support, should be shut out from employment.

An argument like this, if not backed by an evident necessity, falls under attack. Such is the case in government and municipal employment. The government fixes a scale of wages. In the United States this scale is considerably above the scale in similar private employment. Trade unions have doubtless taken the lead in establishing these favorable conditions, but they really depend, not on the unions, but on politics. They are the natural outcome of universal suffrage, and are not found to the same extent in countries or localities where the labor vote is weak or labor is newly enfranchised. Formerly the political party filled such positions with its partisans. The situation is no worse when the union fills them with its members. But competitive civil service, or civil service reform, is an advance on both partisanship and unionism. Government pays the scale to all alike. There is no competition of

outsiders to force it down. The state can be a model employer because its products do not compete on the market. The non-unionist or the aggressive employer is not a menace to the wages of government employees. If the government should let out its work to the lowest bidder the union then could maintain a scale only by the union shop. But when the government hires its own workmen the union shop is not needed. A strike would be absurd, and the appeal for fair wages must be made to the people at large, through their representatives. The appeal is ethical and political, and not to the judgment of a strike, and such an appeal is stronger when free from the onus of an exclusive privilege.

This is not saying that government employees should not be organized. In fact the highest form of civil service in a nation committed to representative democracy is that where the public employees are organized in a union, so that all grievances can be taken up by their agents and "arbitrated" with the head of the department. This was demonstrated by Colonel Waring in the Street Cleaning Department of New York, and he showed that only by requiring his employees to join in a union could partisan politics be wholly shut out and the highest efficiency secured. But this sort of unionizing depends on a favorable administration and an enlightened public opinion, and not on the strike or the closed-shop.

There is a class of private employment similar to that of government employment in the conditions which make the closed shop unnecessary. This is railway transportation. A railway company establishes a scale of wages for its higher classes of employees. This scale is uniform over its system, is paid to all alike, and is not nibbled down by dickers with individuals. When the

railway brotherhoods accept such a scale, they know that it will be paid to non-unionist as well as unionist. Therefore they do not even ask that it be put in the form of an agreement, but are content that it simply be issued as a general order from the manager. They probably would take a different view if the company let out the hiring of employees to the lowest bidder among competing contractors, or even if they themselves tried to maintain a scale for section hands who are not protected by a long line of promotion. They certainly would refuse to work with a non-member to whom the company insisted on paying lower wages than the scale. The closed-shop policy on the railroads could be supported only by the sentimental argument, and the railway brotherhoods have recognized its futility when not backed by the economic argument. It is most significant that the agreements of the machinists' union for railway shops are likewise open-shop agreements, similar to the brotherhood agreements, issued as a scale of wages by general order for the entire system and making no mention of the union. This is also true of the machinists in government navy yards and arsenals, where the union has won several advantages for members and non-members alike. This is the union which, in general manufacturing, outside railway and government work, has been most bitterly assailed for its closed-shop principles, but it is evident, from the contrast, that these principles have been forced upon the union by the different character of the industry and the different attitude of employers.

The situation is different with street railways. Some of these companies are conducted on a large scale like interstate roads, and the unions are safe with an open-shop agreement. Others are conducted like shops, and

the street railway union seeks closed agreements, and has been known in a few cases to go on strike against non-union men. This union is entirely different from the brotherhoods in that it admits to membership every employee of the company including even the car cleaners, excepting only those who already belong to an old-line trade union. Its motormen and conductors are not protected by a long period of apprenticeship or slow line of promotion, like the locomotive engineers and railway conductors, and consequently their places can be filled by men fresh from the farm or from any other occupation or profession. In fact the union contains ex-lawyers, ex-ministers, college graduates, and a variety of ex-talent that is unique. To them, therefore, the closed shop is often essential, and to the companies also it is an advantage, for the internationel union then guarantees the local contract.

The sentimental argument, of which I spoke as applied to government work, sometimes becomes more than sentimental when applied to private employment, even where the non-unionist gets the same pay as the unionist. There are always selfish and short-sighted members in a union. If they see a non-unionist enjoying the same privileges with themselves without the expense of union dues, and especially if the foreman shows a preference for the non-unionist, they too demand exemption from union burdens. Thus the union disintegrates, and a cut in wages or stretch in hours cannot be warded off. Experience is a hard teacher and has taught this lesson thoroughly. It is not a mistake that the persistent non-unionist in private employment should be looked upon generally as a menace.

Another fact regarding this sentiment is often overlooked. Being compelled to work together and help

one another in the same shop, men's feelings toward each other are personal and intense. The employer in his office need never see the competitor whom he is trying to crush, and only their products meet on the market. He scarcely can understand that his workmen in the shop are also competitors, but, in addition, are under enforced personal contact, and their sentiments cannot be kept down. What to him is business seems malice in them. Yet these feelings are really a factor in his cost of production, as much as the coal under the boiler or the oil on the bearings. It is not surprising that the open shop, even from the employers' standpoint, is not permanently practicable, and tends to become either union or non-union.

It would be possible to run down the entire list of unions, and to show in each case the industrial circumstances which make the union, or closed, shop necessary or unnecessary from the standpoint of maintaining wages. Wherever there is a large number of small contractors, as in the building trades or the clothing industry, an open-shop union cannot survive. The building trades in London though less effective on wages than American unions, are nevertheless safe with their open-shop agreements, because, in addition to the fact that the unions are not compelled to protect the common labor working with them, the master builder does not sublet his work, but has his own large establishment and permanent force, and hires all the trades directly. He takes up all grievances when they arise, including the grievance of the non-unionist. But in the United States the master builder has usually only an office force. He sublets all but the mason work to ten or thirty different contractors. These contractors often require little or no capital, and a mechanic today may be

a contractor tomorrow. A non-union contractor, with his lower wages and imported labor, would soon drive the union contractor out of business. The building trades are therefore compelled to put their closed-shop policy foremost, and where they have been defeated in this policy, as in Chicago in 1900, they have soon regained all they lost of the union shop, even though working under explicit open-shop agreements.

In the clothing trades, the sweat-shop is simply the open shop; for the sweat-shop is the small contractor with fresh immigrants, long hours and minute division of labor, crowding into the market and underselling the shops where wages, hours and conditions are better. Such would unquestionably have been the outcome in the building trades had the unions not been able to enforce the closed shop. No amount of good will on the part of clothing manufacturers or master builders could stand against a market menaced with the product of open shops. It was through the open shop that the American-born tailor was displaced by the Irish and German tailor; that the Irish and German were displaced by the Jew and by Polish women; and that the Jew is now being displaced by the Italian. In the building trades the Irish, German and American have stopped this displacement by means of the closed shop. The Jew is vainly trying to stop it, and the Scandinavian in Chicago until recently had stopped it in one branch of the clothing trade. Each displacement has substituted a race with a lower standard of living. As soon as a race begins to be Americanized and to demand a higher standard, another still lower standard comes in through the open shop. This is the history of many American industries. Whether the conditions in the clothing trade are preferable, for the

American nation, than conditions in the building trades, is a question open for differences of opinion. The difference, however, is not apparent among the workmen in those trades. The immigrant, the manufacturer, the consumer, may hold a different view, but if so, it should be understood that the question in dispute is that of the wages of those workmen. As things are, the union shop or closed shop is the wage-earners' necessary means to that end.

It is sometimes asserted that American unions, like the British unions, should place more reliance on reserve funds, benefit and insurance features, and that, with these attractions they would not have been compelled to put forward so strongly the closed-shop policy. The British workmen joins the union at the close of his long period of apprenticeship, and his motive is not the coercion of the closed shop, but rather insurance against sickness, death, loss of tools and out-of-work. His union is like the American railway brotherhoods which also rely on insurance and previous promotion. But the American unions do not have this period of apprenticeship to work upon, except as they have established it by the union shop. They are confronted by foreigners in language, modes of thought and standards of living, pressed on by necessities in a strange country, and eligible without previous training on account of minute division of labor. Should American unions wait slowly to build up their organization on the open-shop and insurance-benefit policies, they would be displaced by foreigners before they could get a start. The foreigners again would have to set up the union shop as soon as they in turn began to demand better conditions and were confronted by a new race of immigrants. This is exactly what they have done, and the union or closed

shop in America is necessary to support those very insurance and benefit features which are proposed as a substitute for it.

That there are many serious problems springing from labor unions is evident. But they would properly be discussed under other headings. The present discussion is not merely of their good or bad methods—it is of their existence and their power to raise wages. Under a different order of industry or a socialistic policy of government unions might be superfluous. Their existence and their methods arise from the nature of the industry and the attitude of employers, A method necessary in the building trades or coal mines may be superfluous on the railroads. Their methods also arise from the universal human struggle for power. No institution or individual can be trusted with absolute power. Constitutional government is a device of checks and balances. Employers' associations are just as necessary to restrain labor unions, and labor unions to restrain employers' associations, as two houses of Congress, a Supreme Court, a president and political parties, to restrain social classes. Progress does not come when one association destroys the other, but when one association destroys the excesses of the other. This kind of progress is going on in the several industries mentioned above. There the open-shop question has never been even considered or mentioned, or else in course of time it has become only an academic question, because the employers' association takes up and remedies every real grievance or disproves every fictitious grievance that provoked the union into existence, and does not permit any of its members to "smash" or undermine the union. The bad methods of the union are gradually reduced by discussion backed by the power of organization, and its

good methods are encouraged. Education improves both parties; mutual respect succeeds suspicion. In those industries it is accepted that protection to capital carries with it protection to labor; that fair profits imply fair wages; that well-disposed associations on each side shall together discipline the non-unionist the same as the unionist; that the employers, having lost despotic control of their labor, regain a nobler control through coöperation with the union; that the opposition to non-unionist is not based alone on sentiment or malice, but on economic necessity; and that a question, which only stirs up class hatred in the field of pronunciamentoes and abstract rights, works out a peaceable solution when men acknowledge mutual rights.

THE ISSUE BETWEEN THE OPEN AND CLOSED SHOP

JOHN GRAHAM BROOKS

It will help me to state three facts which I take for granted in this paper without further discussion. First, that trade union excesses at certain points have compelled the employers to organize. Second, that this organization, if directed fairly against the abuses of the unions, is the best possible thing that could happen to the unions. The struggle on the inside of labor organizations between the conservative and the raw, radical elements is quite as relentless as the struggle between the union and the employers. A stubborn, well organized opposition to every abuse on the part of the union will strengthen the conservative control within those warring bodies. Third, that if (as in some of the allied building and metal trades) the union persists in retaining a reckless leadership, the employer has no alternative but to fight; to fight moreover not on the assumption that the union is to be preserved—but that it is at least to be temporarily destroyed.

Neither the open nor the closed shop is a clearly defined object for discussion. In respect to trade union aims and employers' rights, a given closed shop may differ from another closed shop more radically than many open shops differ from closed shops. There are employers who prefer collective bargaining and the joint-agreement with the provision that only trade unionists be employed. Granite cutting, cigar making and coal mining offer such illustrations. There are closed shops in which the union insists upon having the foreman a member of the union; which restrict output, which re-

fuse the employer the right to discharge and compel *him* to force non-union men into the union. There are open shops like that of the Boston Transcript, so fair as to wage scale, that I have heard trade union printers say that they did not even object to this kind of open shop, and that, because the non-union standard was controlled by the union. There are plenty of other open shops in which discrimination and blacklisting against trade union men is so bitter, that it has every characteristic of the worst closed shop. It is with this extreme diversity of conditions that we have to deal. Most industries in England have the open shop, and yet in these instances it is so distinctly understood by the employer that he is under practical coercion not to have non-unionists that the business is far more a closed shop than many a business in this country where the union label has been accepted and the contract signed.

Every attempt at definition is embarrassed by these diversities. Theoretical accuracy would class as open shops scores that are called *closed* by employers and employed. Employers in soft coal, granite, stove and cigar industries tell you "We have the closed shop," in spite of the fact that the "joint agreement" doesn't mention it, or expressly says it is an open shop.

Logically, or in terms of the contract, we cannot escape this verbal perplexity. The moment, however, we approach from the practical side, this difficulty vanishes.

As I deal with this practical side, I think it adequate to say that a thoroughly unionized shop, understood to be such and accepted as such by the employer, is a closed shop, just as the open shop is one in which the employer hires and has constantly on hand non-union men.

That the contract for the closed shop forces the employer to discriminate against non-union men, shows at once why the fight is on. It explains the heat and determination of the employer. It explains in part the stiff reaction against the trade unions in the United States during the last eighteen months. It explains the almost universal approval of the open shop principle by the press and the outside public.

However friendly one may be to the closed shop under certain conditions, it must be confessed that it has to be defended as a practical exigency in a given time and place, rather than as a *principle*. One must also admit that the twofold organization which the closed shop implies may finally prove so costly to the general consumer as to condemn it from this ground alone. We are not, however, at present sure of this.

It is the best of luck for the employer that the issue has arisen in its present form. It is not only ill luck for the unions, but partly their fault, that they have permitted the issue to get before the public in its present shape. If instead of crying openly for the closed shop contract with its obligation to turn the employer against the non-unionist, they had turned the tables and cried against the proposed discrimination against an effective unionism with its principle of joint agreement and collective bargaining, the trade union argument would probably have three chances in the fight where it now has one. I admit there would be an element of humbug in this strategy, but not one-half the humbug that fills the great phrases of the employers about "liberty," "freedom" and "Americanism." As it is, the employer will get every advantage out of those big words. The public will respond to them. The response will be so general, so unequivocal, so instinctive that there is a

good deal of danger not only of general confusion but of injustice to what is best in the aims of organized labor.

Why is it that the trade unions object to the open shop? Because they fear it will be used to disrupt or dangerously to weaken their organization. The open shop in the hands of an employer who is hostile to the union can easily use the non-union contingent with deadly effect. The non-unionist is always the danger to the wage scale. The union is opened to insidious attack at the very points where its weakness is greatest. This is no mere theorizing of the trade unionist. It is a part of his long and bitter experience in trying to raise wages and lower hours. I heard the social secretary in a business that has finally granted the closed shop tell why he thought the men were right. "When the union was weak", he said, "we could deal individually with non-unionists who were often willing to start in with almost any wage. This enabled us to play these men against the trade union minimum so as to bother the life out of them. But more than this", he added, "is the temptation of the employer whenever he is hard pushed to cut wages, as the easiest of all ways to get out of financial trouble. In our business", he said, "a cut of five per cent. drops several hundred dollars a week into our cash box, but if we can bargain individually with fresh men and new apprentices we can get the equivalent of that cut without appearing to make it."

Again, this danger of the non-unionist is incalculably greater in America than in England because the disciplining power of benefit features is here so slight.

The chief struggle of the union is the discipline of its members; collecting dues and enforcing penalties. In a union that is new or weak or composed of many nationalities, the open shop, *plus* an employer unfriendly

to unionism may render it almost impossible to build up an organization that possesses any real power of assertion. Nor is this the interest of the trade union alone. The public concern is definite and immediate if the principles of the joint agreement and collective bargaining are of any social importance. Strictly on the evidence, we have come to believe that both these agencies have economically and educationally extreme utility. If anywhere in the future the wage system is to be modified in the direction of more cöoperative and democratic methods, the joint-agreement in some form has to be strengthened and extended. For the kind of education we most need, politically and industrially, I do not know a more disciplining agency now working in the United States, than the joint-agreement, as it may be seen for example in our soft coal districts and among the longshoremen and cigarmakers and stove makers. As to the value and justification of collective bargaining one need not argue before this body. Or, so far as it is the policy of employers' associations to carry on the fight for the open shop with the rancor shown in every issue of "American Industries" does anyone suppose that the unions will not strike back in the same spirit for the closed shop? This rancor among employers will create the very difficulty they are trying to avoid. There are no abler labor leaders in this country than those that hold that the power of the absolutely closed shop, *if generally applied*, would be unsafe from the union point of view. They hold that the compulsory element except in a few industries, is dangerous; that the progress of the union depends upon persuasion and upon merit.

The Civic Federation has done no more signal service than in meeting the trade union at this highest point of

its development. It enlists the coöperation of what is best and most conservative in labor organizations. It thus avoids the blunder of trying to discipline the union chiefly from without. If unions are to persist, their education must come more and more from within.

But what has this to do with the open or closed shop? It has pretty much everything to do with it, in the actual situation which we are considering. The National Typothetæ of America at their last meeting came out almost fiercely for the open shop. In a paper that got great applause the vice-president said, "The open shop means the destruction of the union, unless the unions concede it." He then attacks the whole method of the wage scale that goes with collective bargaining, saying outright, that the employer must deal with his men "individually," hiring whom he will with no conditions, discharging men as he sees fit without giving any reason. Among an exceptionally intelligent group of employers, we thus see what the unions have to face.

In spite of a formal sop to collective bargaining at Pittsburg last spring, the Manufacturers' Association of the United States leaves us in no doubt as to what its members want, if they are strong enough to get it. They decry every distinctive feature of labor organization, so far as it is an aggressive body struggling through its representatives to get a higher wage and shorter working time.

It will help us a little to get clear about the frequent reference to the open shop question in England and in well behaved unions like our own railway men who have the open shop. Those who compose this union are a picked and carefully sifted lot of men in no way analogous to trade union membership in the severely competing industries like cigar or garment making.

As for England, where the open shop technically prevails, the population is homogeneons, the unions old, disciplined, restrained by large benefits, and what is more, the employer however much he may hate them, has come to recognize the fact of unionism, the fact of the joint-agreement, the fact of collective bargaining, in a way that separates the situation there well nigh absolutely from our own.

There is, I think, almost no real light to be thrown on our subject apart from the facts and peculiarities of our present industrial condition in the United States. What is chiefly peculiar to this condition? (1.) The degree of individualistic temper in our employing class; an individualism magnificent in its achievements, marked by a succession of industrial triumphs which are, upon the whole, unmatched by every test of material success. The second, is the extent and character of our immigration and all that these mean to the employers in their struggle against a really effective unionism. That there is a struggle against the union "per se," will, of course, continue to have very insistent public denial. "We do not object to what is good in trade unions; we have no quarrel with trade unions as such," are very familiar phrases. I have spent a good deal of time trying to find out what intelligent meaning attaches to "per se" and "as such," what "the good trade union" is in the eyes of a large part of the most influential employers.

During some weeks of the Colorado Strike, I found no employer who was not careful to say in public and in print that the trade union was all right "as such," but the organization he had in mind was one for which no lot of laborers would sacrifice an hour's time or a day's wage. Anything like a labor organization that would

correspond in the least to the organization that capital has secured, was a thing to be fought to the limit and with any weapon that could be reached.

The illustration is an extreme one. A part of the trade union leadership in those communities deserved all the punishment it got; but the temper toward such a union as the workmen are trying to get and *ought* to try to get, is not in the least confined to Colorado. It characterizes at the present moment thousands of our employers.

The third characteristic of the situation is the rise and federated strength of citizens' alliances and employers' organizations. These organizations have doubled and redoubled the strength and confidence of the employers in their contest with unionism. Association has changed the helplessness of isolation, to the courage that comes with organization and the various forms of insurance which association offers. To see what this new power is, it should have very concrete statement. In many a town in which trade unions have become domineering, one sees the strongest men in the community in every business and in all the professions so united that the mayor, the aldermen, the police, the editors and even the courts are immensely stiffened against the whole fighting policy of the unions.

Some of these anti-union bodies have gone much beyond persuasion in securing members. There was never so effective a blacklist in the United States as some of these associations have employed. There has been plenty of the spirit of picketing and no end of boycotting in rather extreme form. As they have strengthened along the lines of general federation, they have shown extraordinary efficiency in checking labor legislation in Washington, like the eight hours and the anti-

injunction bills that were finally not even reported out of the committee. They have legal departments, press committees, detectives, employment bureaus and their own walking delegates and a staff of strike breakers. In several instances they have turned patronage toward a boycotted firm so that the boycott resulted in a pecuniary advantage to the victim.

(a) In this militant and confident individualism; (b) in the overflowing market of low class labor which immigration offers; (c) in the united and aggressive force of employers' associations may be seen what trade unions have now to face in this country.

Here in this employers' organization is a new force with which trade unionism must cope. Its strength and permanence we do not know, but it is well for the unions to understand that capital in this country has never yet found it worth while to exercise its real strength against organized labor. It now finds it worth while.

It is true that the excesses of certain unions have driven the employers to organize. But the supreme question remains how is this new power to be used? Exercised with wisdom enough the open shop is safe. Exercised narrowly and for immediate advantage it is socially of extreme danger.

Very little light is to be thrown upon any practical feature of this open shop question apart from these tempers and conditions amidst which the contest has to be carried on. On any grounds of abstract rights it cannot be discussed with much profit.

When Mr. McSweeny says that Constantinople is now the centre of our immigration, we see what that means for lowered economic types. Thousands, moreover, now come almost monthly, not because of the hardy and ad-

venturous quality which makes the good emigrant, but because swarms of local agents have made it their business to wheedle and persuade them. In Southern Italy alone are more than three thousands of these agents. The granite cutters who have the closed shop had little difficulty with the Italians from the North of Italy, but for some years the increasing proportion of Southern Italians, coming in flocks under contract to padrones, has made an absolutely new problem for those unions.

Our guidance must come in this question from these competitive conditions and not from any sounding generalizations whatsoever. Employers are going to the tilt in the name of "liberty," but organization on both sides has introduced something so like a revolution that the truth is, we do not know what liberty means as applied to the new situation. It has still, in its applications, very largely to be worked out. If, for example, the closed shop, brought about without any violence and with the consent of the employer, as in some of the cigar factories, results in a good living wage with eight hours and improved conditions, and the entire exclusion of children; while outside the union there rages a destructive competition and many children employed, is it not grotesque to make words like liberty and Americanism synonymous with that kind of haphazard competition? Liberty is not adequately defined in terms of the employers' pecuniary interest. It also has social connotations which we are only beginning to learn.

The landlords fighting the Irish land act of 1881 * were enraged because this act was an attack on "free contract" as interpreted solely by the landlords' rental, but Gladstone and those who helped him, forced the

***Note. John Morley calls this (Life of Gladstone, III, 537) the most deep reaching of all his legislative achievements.**

public to recognize that the cottier tenant was not in a position to make a really free contract. This kind of contract had to *go*, together with unchecked competitive rents. In our own country we shall not take one enlightened step in dealing, for instance with industrial accidents, without modifying very profoundly this principle of free contract, as in the case of "contracting out". In the garment industry, if it should be found that the employers could not control the situation;—that advantage will be taken of the open shop and of the stream of fresh immigrants like the Italians who do not care as the Hebrews do to keep their children in school; that the gains due to trade union sacrifices were not only put in jepoardy but the power of the sweater was on the increase,—are we in this instance to be comforted by any unctuous rhetoric about "Americanism" and "freedom"?

For any formal limitation on this freedom there may conceivably be the amplest compensation. In such special industries as I have indicated, social utility and security must test even the biggest phrases.

If with the closed shop the union win two dollars a day and eight hours, it may well forego some aspects of personal freedom. Or shall we say that the open shop of the sweater with a dollar and a quarter and a twelve hour day, is more desirable because the workers are free? If the facts force this alternative, which are we to choose? The employers in this trade find discriminatiou an outrage, but they must practice it themselves if they do as they promise. Competition and the kind of market they work in, make it easy for them to get cheaper workers and longer hours, but they say they will not do this. If they do not, they certainly will have systematically to discriminate and set limits to freedom

of a lot of workers to sell their services as they like. They cannot hold the higher standard without it.

We do not like discrimination, but it is accurately, what our whole competitive system is filled with—this discrimination. The trade union form of discrimination is by no means the worst, especially if the unions are met by powerful employers' organizations to check their abuses. This tendency among us to hold the trade union to an exceptionally high moral standard has plenty of other illustrations. There is much indignation because the unions set so many barriers against the free employment of all kinds of surplus labor. But this ugly shadow is thrown on us from quite other causes. It is an evil the roots of which strike so deep, that no one of a dozen commissions appointed to deal with it has yet thrown much light upon its effective cure.

There is the same reason for open-mindedness and patience in regard to the legal side of this question. No mere revival of precedents from the conspiracy laws will meet the new difficulties. We now have Judge Adams at one pole and Judge Parker at the other, with every variation of legal opinion somewhere between these extremes. Mr. Dooley could find rare sport in this conflict of opinions. As in the the case of capitalistic combinations the complete legal statement has yet to be made.

In thirty-eight labor papers I find the demand for the closed shop. With the exception of two or three unions like the locomotive engineers, the demand is practically universal. I would not make too much of this, but I wish to submit this question: From what we know historically about the long struggle of the trade union with the employer, have the trade unions been more wrong than their masters on the chief issues between

them? I doubt if any student would claim this. If the conviction of labor upon any point has persisted and become a mass-conviction, does it not now make an extremely good showing as compared with the judgments of the employer on the same points? It surely goes for something that the feeling and opinions of the unions on the closed shop has such strength and persistence.

To judge this open-shop issue, as I am attempting to do by the employers' temper and by business and social conditions is of course open to difficulties. We are by no means certain either of the temper and conditions, and much less certain what changes both will undergo. Immigration may be greatly checked but I do not believe it. The employers association may fall under the control of heads steady enough and wise enough to deal coolly and adroitly with this question. The temper and policy of the trade union may also change. Last summer, in Colorado, I asked the employer who led the fight at its bitterest point, what policy they were likely to adopt when they had smashed the Western Federation of Miners. "Keep the wage up and the hours down and deal fairly with the men, let them have a union if they want it but a decent one". Well, if they should *do* that; if the pig-headed, the embittered, the weaker and hard pressed employers could be controlled by such a spirit there is no cause for worry about the open shop.

Again in the garment making industry, where the best test for this question is found, I am told by some of the best employers in it and by the National President: "We are agreed not to use immigration to lower wages or to lengthen hours of work. We have won the open shop and we shall keep it, but we shall not use it to

weaken the trade union or to lower the standard of living."

I could not find a garment maker or labor leader in that trade who believed for an instant that the employers could do this. There is something like terror in unions because of what they believe an army of petty warring contractors can bring about through competition and the easy resources of Jewish and Italian immigration. It is extremely doubtful if employers' organizations can ever hold together without steady organized resistance of the unions. Thus we have to watch this new power now in the hands of the employers. The open shop has been won at points where it was least expected by the unions; in printing, garment making, building trades and among the metal workers. The anthracite Coal Commission made this issue clear and emphatic in its report. President Roosevelt also met this issue unflinchingly in the Miller case at the Government Printing office. All possible pressure and threats from the trade unions were brought to bear upon him to discharge Miller and thus play the closed shop game. The public sympathy for this action of the President was instant and complete. I was sitting with a little group of trade unionists in New York City a few days before the election. One of them said, "We have our orders to vote for Parker because of the Miller case." Yet what conceivable indications are there of any real union response to this? They went their way and voted for Mr. Roosevelt. They saw clearly that the *Government* could not thus discriminate among its citizens. They saw that competition could not there enter in to lower the wage scale, as it may and does in so many private competitive industries by using non-union men to break the scale.

It is the extreme open shop claim that we fear precisely as we fear the extreme closed shop claim. We now have proof that to press the open shop issue too relentlessly is itself a cause of strikes followed by much bitterness and a spirit which would mean pretty much everything among his workmen that the employer does not want. If the union restrict output for instance, will the employer in the long run get less of it with a crushed union and a sulky lot of workers?

The bearing of this closed shop contest on the sources of good or ill will both with employer and employed is fundamental in discussion. I have given opinions from nearly forty labor papers. What then may fairly be said of the temper on this issue of a very large number of employers? It never had either so general or so definite an expression. We need not confine ourselves alone to the organ known as the "American Industries." In this journal, and very widely on the outside, we have first the persuasive shibboleth. "The employer now proposes to manage his own business." That carries so convincing a proof and if properly defined, *is* so true that it is worth taking up arms for, but like "freedom" and "true Americanism," it is a phrase, and it may be a damnable one, if "managing one's own business" means the destruction of collective bargaining with what that implies in helping labor to assist in determining the wage scale, working time and specific shop conditions. That such crippling of the trade unions is aimed at by hundreds of these new employers' organizations admits, I think, of no question. The constant and contemptuous reference to the Civic Federation and definitely to collective bargaining, the joint-agreement and even to arbitration, is proof enough of this. *With this temper* the open shop is likely to be at least as danger-

ous socially as the closed shop at its worst. Every conceivable affront to liberty may go with the open shop. Vicious discrimination against union men as such, the boycott, the sympathetic lockout may also play havoc with every principle sacred in a democratic society. The delight of the socialist at the success of these anti-trade union organizations has plenty of significance. If I were a socialist, I should hail "Parryism" and all it means as the most effective aid that political socialism now has in this country. On the other hand, I should fear most the constructive work of bodies like the Civic Federation. These stand without any humbug for common organic efforts between capitalistic and labor organizations. They squarely grant to the union strength enough to get some form of agreement, so that the habit of contract-making and contract-keeping can slowly be built up between industrial groups. It required generations to teach any *group* the hard lesson of contract keeping and we are as dull-witted as we are unjust to expect the labor world to learn it more rapidly than others have learned it.

Finally, what one hopes is that the closed shop, where it is working constructively and decently, as it has been for years in several of our industries, may have a fair chance to show us what it can work out—in raising wages and reducing hours. The cigar makers in Boston for instance have the closed shop but with no written agreement. Upon principle they have low initiation fees (three dollars in six annual installments) in order that all in the trade may easily join. If no person is refused admission, shall this be classed strictly among monopolies and if so, in what sense? There are cigar factories closed absolutely to trade unionists known to be such. I suppose that not a half of the cigar makers

have the closed shop but this has gone on with a degree of educational and disciplinary work—elaborate insurance benefits—unemployed benefits—but more than all these, the winning of an eight-hour day and a decent wage under piece work which affects the whole trade. That complete individual freedom suffers somewhat under this régime is of course true, but that limitation of personal liberty is not in the least peculiar to the closed shop, nor does it find there its worst forms. The able secretary of the Boston cigarmakers writes me, that after the long years of struggle to get their present standard including the elimination of children and equal pay for women with men, "I hold if the hours of labor are eight and the wage two dollars a day, no one should be allowed, if we can help it without violence, to sell his labor below the scale or agree to work longer". If a strong trade union is necessary to win and maintain this hard won standard in industries like garment and cigar making, should we not be very patient with the method (if violence is eliminated) that are found necessary to secure the result?

There is not the slightest fear that the closed shop will become universal. The compulsory and monopoly features in such voluntary associations are an evil with little justification further than they are necessary at a certain struggling stage of the trade union movement in its costly effort to raise and maintain its standard of life.

The enemies of the union in this country are doing their utmost to fix the attention of the public and keep it fixed on the accidental features of the movement;—on its excesses, its bad leadership, its narrowness and shortsightedness. Unhappily these are all there, but they are in no sense even secondary aims of unionism.

To secure and to retain against immense difficulties the income and conditions of an improved economic and social standard is primarily and mainly what they are after.

It is because we are at present so ignorant about the necessary limitations to the competitive system, that we ask some suspense of judgment about the closed shop principle, especially where it is working without any grave injury. That our conceptions of liberty and law and freedom of contract, as applied to the actual situation have to undergo very considerable modification may be put down among the certainties. Meantime it may prove that with intelligence and good temper on both sides, the practically closed shop may be found in such industries, as I have indicated, temporarily very vital in strengthening collective bargaining and the joint agreement, and thus helping toward a more tolerable organization of industry.

THE NECESSITY OF AN OPEN SHOP—AN EMPLOYER'S VIEW

JOHN D. HIBBARD

When I was honored with the invitation to address your Association on the "Open Shop," it was suggested that what might be of interest was a statement of the views of an employer on the question under discussion, based upon his actual experience and observation. That the constitutional rights of the non-union man, granted by our form of government; as set forth in the findings of the Anthracite Coal Commission, and as described by nearly every writer on the subject, were well understood, and that the Association had passed the time when a purely academic discussion was of as much interest as the statement of actual conditions from which rational conclusions might be drawn.

In order that these considerations, as seen from the standpoint above suggested, may be clearly indicated; that the peculiar difficulties of the situation may be accurately described, it has seemed desirable to define "open" and "closed" shops as follows:

First, the "closed shop," indicating, in the ordinary acceptance of the term, that in which union conditions prevail throughout, and in which none but union men are employed.

Second, the employers' "closed shop," closed to union men.

Third, the "open shop," where a nominal "freedom of employment" exists. Where there is supposed to be no discrimination against unions or union officials, on the part of the employer, and no intimidation or coer-

cion of non-union employees, on the part of the union This is the "open shop" as usually found to-day.

Fourth, the true "open shop," in which the suppositions of the preceding definition become facts, where the rights of the individual are respected, where reward is measured by merit and where law and order prevail.

That it might be possible to present to you the employer's attitude toward the several shops enumerated, a circular letter was addressed to the members of the Chicago Metal Trades Association, (composed of employers of machinists, metal and brass workers and allied trades, in this city) as well as to others, whose opportunities and experience made them, presumably, competent witnesses. The answers have been freely used in what follows:

From the very nature of the request made of me, this must be an "ex-parte" statement; still I will endeavor, without feeling or bias, to give you the best thoughts of these present day employers.

That unions have played a most important and necessary part in the improvement in the hours, wages and conditions of labor, well illustrated in Mr. Ray Stannard Baker's article, in *McClure's Magazine* of December last, "The Rise of the Tailors," most employers of to-day admit, as well as that employers of the past were largely responsible for unendurable conditions. Nor is there to-day, broadly speaking, any antagonism to unions as such. I have among my personal friends many union men, business agents and National Union officers, whose motives or actions cannot be questioned, and who have at heart the real welfare and advancement of those whose interests they represent, and my criticisms are not of such, nor of the unions themselves, but of certain policies and their results.

FIRST, THE UNION "CLOSED SHOP." Most employers to-day believe that the contract, implied in the operation of a wholly union shop, is illegal and contrary to the conspiracy enactments of a large number of our states. Regardless of what may be said of the selfish interests of employers being paramount, the legality of such a contract is a live issue. In a recent decision of the New York Court of Appeals the chief judge says: "I fear that the many outrages of labor organizations, or of some of their members, have not only excited just indignation, but at times have frightened courts into plain legal inconsistencies and into the enunciation of doctrines which, if asserted in litigation arising from any other subject than labor legislation, would meet scant courtesy or consideration."

Judge Francis Adams, of the Illinois Appelate Court, Northern Division, in the now celebrated Kellogg Switch Board and Supply Co. case, states, "The agreements in question would, if executed, tend to create a monopoly in favor of the different unions, to the exclusion of workmen not members of such unions, and are, in this respect unlawful. Contracts tending to create a monopoly are void."

I believe we may look for a more rigid enforcement of our conspiracy laws in the near future. Public sentiment is awakened to this necessity — whether the offender is employer or employee.

The next, and possibly more far reaching effect of the union shop, is the condition of "dead levels", brought about by the minimum wage limitations and working rules. The brotherhood idea of the stronger helping the weaker is, in the abstract, something we all subscribe to, but in actual experience the results are not beneficial to employer or employee. It is the universal

experience of employers that complete union conditions are an absolute death to individual effort and ambition. Take away the incentive of a workman to do better, fine him when he does more than his stinted amount, let him realize that the minimum wage usually is and must be the maximum, and the inevitable results. Men who have been in my own employ, capable, energetic and ambitious, have, after joining the union and being pointedly informed that they were making slaves of themselves, and were setting too fast a pace for the others, become listless and careless, their work depreciating not merely in quantity but in quality. This experience is almost without exception, that of all. "The initiative to do a fair day's work, is destroyed, as is also the desire to improve condition and position by showing superior skill and energy in turning out the work to be done. The whole tendency is to level the better man down to the poorer, by forcing an artificial minimum wage. The minimum wage destroys the fair and discriminating grading of men according to their merits. The average daily wage in the shop is forced so high by this minimum wage that it becomes practically impossible for the manufacturer to pay the highly skilled, active and intelligent workman the wage he can earn. There is a marked tendency in a closed shop, for the poor men to shirk their work, reduce the output and fall back on the union for protection." Of all the charges to be laid against the union to-day, there is perhaps no single one so serious as that the mental and moral fibre degenerates under conditions of unrestrained union power.

The "closed shop" implies a contract, about which I shall have something further to say. One of its features I desire to suggest at this time, which involves one of

the greatest difficulties of the labor problem, namely, the proper division of profits between capital and labor. Few union men are qualified, either by education or experience, to discuss costs, profits or economic conditions, and by this I do not mean to infer that they are any less capable than the employers—but, as is well known, these are the important problems in the every day life of the employer and of those whose chief duty it is to *know*. Elaborate and expensive cost systems, obtained only as the result of years of study and the expenditure of large amounts, are becoming more and more necessary as competition decreases profits, and it is a wise employer who knows his costs. Moreover, in discussions of this character, sufficient distinction is not made of employers, all being placed in one class and treated alike. There are, without doubt, many examples of abnormal profits accruing to capital, with no corresponding increase of wages, but by far the larger number of employers, as a result of unrestricted competition, the combination of large interests, and limitations insisted on by the unions, find it difficult to obtain a fair and just return upon their capital invested, upon their own skill and effort. At least this is true of later years.

I shall merely mention the employer's objection to the restrictions placed, in "closed shops," on apprentices. These are well known, as are also their blighting effect.

The "closed shop" imposes almost unbearable conditions upon the small employer—and there are many such—who happens to be located where union conditions prevail, while his competitors in other sections of the country are not so affected. Many times the argument has been made, by union men with whom I have discussed the question, that if we would only locally

subscribe to all the union conditions demanded, their attention could then be directed to the outsiders. If good judgment prevailed and wise measures were adopted by the union so recognized, possibly this might be done, but unfortunately, in the instances with which employers are familiar, where union conditions have been installed, such wisdom has not been manifest. Discipline — and by this I mean reasonable and proper discipline, such as is recognized as being essential to success—is hard to maintain; and unwise, unjust and arbitrary coercion is exerted to defeat reasonable economies and shop practice. "This same union control strikes directly at the shop discipline; men loaf on their jobs, take unnecessary time away from their tools, run them at low speeds, and do many other things that are very hard to counteract, no matter how active or observant the superintendent or foreman may be."

Another serious objection on the part of the employer, to the closed shop, is the fact that he must compel his men to join the union or leave. This is no light matter. The discharge of an old employee, who has been faithful, merely because he does not wish to join the union, is a serious thing. It is useless to say that he may join the union if he desires. His doing so should be purely a matter of his own free will. "To confess that a union cannot exist and prosper unless it is able to close the doors to all applicants for employment not registered in its membership," says the *New York Times*, "is to admit a fatal, and, under present conditions, irremediable weakness in the trades union position. The demand is one impossible of recognition, by either labor or by employers of labor. There has probably never been a time when fifteen per cent of the wage earners of the United States were unionized."

Possibly the most common objection, on the part of the employer, is the limitation of output and the general retrograde movement in personel of the workman and the character of the work. At one of the meetings of the National Civic Federation, held at Steinway Hall, this city, I heard President Gompers state that there was no such thing as limitation of output. Notwithstanding this statement, I believe that no one feature of unionism, as at present manifested, is so common, so insidious and so dangerous to the workman as well as the employer, based as it is upon absolutely false economic theories, as limitation. That such limitation does exist is well known, not only by the employer and the workman, but to all those who have given the subject any study. As a forcible illustration of limitation, perhaps the following may prove of interest. A strike was ordered in the shops of the members of the Chicago Metal Trades Association, involving some 1,500 employees of a certain craft, who for the most part were presumably skilled in the particular work they were performing. This work varied materially in the different shops, as the Association embraced manufacturers of printing presses, heavy conveying machinery, sewing machines, machine tools, steam valves, ice, can, and mill and mining machinery, as well as many others. Almost immediately after the strike had been declared these shops were filled with an equal number of employees from all parts of the country, few of whom had ever been engaged in the work now set before them. I am within the bounds of truth when I state that inside of three months, with the same working hours per day, the output of these green hands equalled or exceeded that of those who had held the positions many years. "The tendency to restrict production, which is always

more or less present in all shops, and is brought to a point of perfection in the union shop, is difficult to believe in without having had a chance to contrast the two systems. The men seem to get the idea that their loyalty is to the union and not to the employer, and that anything that can be done to hold back work, to make the production per man as low as possible, is proper and correct."

In the "*National Civic Federation*," issue of September 15, 1904, were published the answers of representative labor leaders to the question: "Will labor make concessions for a shorter work day?" An analysis of the replies indicated that a large per cent. of the writers were willing to make, in return for a shorter work day, the concession, either of temporarily lower wages or of unrestricted output. From a few of these replies I quote: "I believe that organized labor should be willing to remove any arbitrary restrictions on outputs to secure the shorter work day; that they ought to render the best service of which they are capable." (W. R. Farley). "I beg to state that I certainly deem it right that organized labor should grant unrestricted output in return for a shorter work day." (John D. Pringle). "An unrestricted output in return for a shorter work day would meet with my approval, providing the men in the shops, 'the men behind the guns,' received the encouragement given the superintendents and others higher up." (John Bradley). "I believe that a shorter work day would result in better social conditions, but no concessions of lower wages. I don't believe in an unrestricted output." (Thomas McDowell).

These replies, from representative labor men, consti-

tute an admission of the limitation of output; much more to the same effect might be quoted.

The answers which I have seen given by prominent union men to the foregoing charges are not convincing to the employer. Either the effects of inexorable economic laws are not understood, or are willfully ignored. It is apparently difficult to obtain a clear and dignified statement of labor's position on these important laws. If President Gompers, James O'Connell, James Duncan, John B. Lennon and others fairly express the best thought of unions on all the foregoing charges, the employer of to-day has no rational answer to his objections to the closed shop, offered in good faith and with a desire to meet real conditions. The closed shop cannot be conceded.

SECOND, THE SHOP CLOSED TO UNION MEN I may frankly say that, except as a war measure, I am as opposed to this condition as to the "closed shop" of the union as being equally unjust and un-American. There are, no doubt, examples of this class in successful operation to-day. I cannot, however, believe their condition stable, or that they suggest any ideas which may assist us. More employers "believe a shop closed to the union men to be exactly as unjust and unlawful as to one closed to non-union men." There are few present-day employers who would state that unions should not exist. Granting their existence, the closed shop of the employer should not exist, except as the war measure in case of strike above suggested. The employers' closed shop is equally impossible.

THIRD, THE SO-CALLED OPEN SHOP. As usually found to-day it means, in the end, unless organized labor is met with an equally well organized and powerful employers' association, a "closed shop." The chief reason for this

condition seems to arise from the inability or unwillingness of union men to abide by the implied contract which exists, or should exist, in such a shop, the terms of which are that the employer shall make no distinction between union and non-union men; shall impose no objection to the men joining the union and shall in no way interfere with the reasonable exercise of the functions of the union or its officers, and that the union or union men shall do nothing tending to in any way interfere with, or restrict, the free initiative of the non-union man. There is, no doubt, ground for argument that certain employers fail equally in their recognition and observance of this contract. In the so-called open shop a most important difficulty appears to be that it tacitly admits union men, and that, to a certain extent, recognition is thereby given the union and union officers, who become spokesmen for the men, in the case of misunderstandings which may arise. Of this recognition Professor Nicholas Paine Gilman, in his "Methods of Industrial Peace," writes as follows: "But this recognition does not necessarily mean that only unionists may be employed by such employers; this is quite a different matter. It is not a "recognition" of the union, but a submission to it, implying a non-recognition and exclusion, in fact, of all non-unionists. This attempt to make the employer an active ally of the union is a virtual confession by the unionist that he has not perseverance enough to convert the non-unionist and, therefore, wishes the employer to fight his battles for him." Even though no more "recognition" is accorded than at first suggested, the effect upon the non-union man is discouraging, and the actual results are that in an open shop, as is usually found where the unions are even fairly well represented, the

non-union man does not stay. An employer writes: "From my experience in manufacturing in Chicago, I believe there is practically no difference between the closed shop and nominally open shop. The non-union man stands no show in the nominally open shop. His life is made so miserable, if not by violence, by small, annoying persecution, and by social ostracism that he will not stay. This class of persecution is so skillfully carried out that, in the majority of cases, the employer cannot locate or prevent it. The agreement idea is utterly worthless. So long as the agreement operates in favor of the union, everything goes along smoothly, but the moment an attempt is made to construe any question so as to give the manufacturer protection, the union official at once says that he cannot control his men. The only way a manufacturer can secure his rights under an agreement is by facing a strike. A strike may not come; it is an ever present possibility, and the employer, nine times out of ten, will put up with rank injustice rather than take the risk. The ideal condition would be the open shop where union and non-union men could work peaceably and pleasantly side by side. There is no question but that a great many skilled workmen belong to the union, and it would be most desirable to be able to draw from that body of men without feeling practically certain that it would lead, sooner or later, to a closed shop. While in any well regulated, fairly well managed shop, union men and non-union men can work amicably side by side, if let alone, the moment there comes a preponderance of union men, the pressure of union officers is so great that the old story of persecution and annoyance begins. I am a firm believer in grievances of any kind among the men being

listened to, corrected promptly and fairly, and in the vast majority of shops I have no doubt that this would always be done. The trouble comes from a grievance that is manufactured outside of your shop, and is forced upon the men against their will by leaders who have to make a showing of some kind in order to hold their positions. I can conceive of ideal conditions with the union, officered by intelligent, conservative and honest leaders, when the terrible annoyances that now exist would be done away with, but the time certainly has not come for this yet."

Possibly the opinions received are influenced by local conditions, as the majority of my correspondents were local employers. On the other hand, doubtless many employers would, could they do so, find occasion and pretext for discharging the union men, or at least the agitator, and this open shop would then become the employers' closed shop.

Open shops may be successfully operated at other points; they are not successful here as at present conducted. Though not fully meeting all requirements, still with a complete organization of employers, equal in extent and power to that of the employees, many abuses now found in the open shop could doubtless be corrected, and it is certainly a step in the right direction. Wholly satisfactory conditions may be purely theoretical, these, to my mind, are found in

FOURTH, THE TRUE OPEN SHOP. This, if it can be successfully operated, safeguarding the interests of employer and workman, be he union or non-union, I think we all believe, affords the most likely field for the individual and collective rights of all. As suggested in the preceding definition, the chief difficulty appears to be the unwillingness on the part of either one or the

other, the employer or the workman, to faithfully fulfill the terms of the implied contract. A brief statement of an attempt to operate under an agreement, under well defined and well understood lines, may illustrate the particular difficulty intimated.

During what proved to be fruitless negotiations with an international organization of union labor some months ago, it became necessary for me, as President of the Chicago Metal Trades Association, to state my position on the question of agreements. This statement was as follows:

Regardless, however, of the outcome of the present difficulties, or our apparent failure to operate successfully more than a single year, under agreement, I still maintain that the premises upon which we based our efforts are true.

First—Unions are a natural result of economic conditions and are here to stay, for a time at least, and longer than any one can predict—possibly until the tendency toward other forms of control is also met.

Second—Employers' associations cannot destroy unions.

Third—No progress has been made toward the ultimate solution of the problem, by any purely "fighting associations." Citizens' alliances and employers' associations have afforded effective relief and have corrected many abuses, but they have not disposed of the union, or the question of relations between employer and employee.

Fourth—Fair agreemeuts, based upon accurate data, honest relations, varying conditions, and upon arbitration (with all its present limitations)—where necessary, suggest far more rational solutions than strikes and

lockouts, intimidation and injunction, with their attendant cost, hardship and engendered hatred.

Most unfortunately and to our sincere regret, the negotiations resulted in an absolute unwillingness and final refusal, on the part of the International Association, to make any concessions, as to decreases in wages, removal of limitation of output, or of increased production, at a time when we stood ready to show, by our costs, expense sheets and other data, that such concessions were reasonable and justified. Nor would they submit the question to arbitration, though this was offered.

It apparently was not recognized that an agreement, if to be a satisfactory method of mutual operation, must work both ways. That decreases must be provided for in times of depression, as well as advances in times of plenty, that, in other words, an agreement is a contract involving mutual obligations and benefits which, of necessity, must vary with changing economic conditions. Collective bargaining cannot always result in wages being increased, and until decreases can be peacefully provided for, when conditions justly warrant them, no hope of a mutually satisfactory adjustment by its means, can be conceived. The attitude of the employer of to-day toward the true open shop, is not that of his predecessor. He has learned the lesson taught by unions, has been educated upon the subject of sweat shops, shorter hours, sanitary shop conditions, and the abuses of heartless task-masters, and realizes, more fully than ever before, his obligations to the men in his employ and to society.

A president of an organization, employing a very large number of men, in fact one of the largest employers in the United States, in a recent conversation,

stated to me "that the present day employer, if he had been observant, had not failed to learn, from what trades-unionism had taught, that the old remedy of the incompetent superintendent, to correct results of bad methods, ignorant shop practice and wastefulness, by reductions in productive pay-roll, was vicious and ineffective. That labor's wages were the last thing to be touched. That dividends, officers' salaries and the expense account, were the proper places for ordinary retrenchment." His company, though frequently a central figure in labor troubles in years gone by, has not had a strike of any magnitude in several years.

I shall not attempt to suggest conclusions which might be drawn from what has preceded. I have never seen any solution of our present difficulties proposed, which appealed to me as being wholly practicable. Our present methods of warfare may be necessary in the inevitable evolution, but though they may bring about the necessary *conditions* for final adjustment, yet in themselves they cannot bring peace. Unions cannot destroy employers' associations nor can citizens' alliances dispose of the Federation of Labor, even were such a disposition, of one or the other, desirable.

I believe with Herman Justi that "indnstrial peace cannot be preserved, with labor organized and capital unorganized", or *vice versa*. Therefore, collective bargaining must prevail, protecting not only the employer and the union man, but the non-union employee and the general public as well. But I am forced to admit that apparently neither side is ready for such action. Many employers are bitterly and apparently unalterably opposed to agreements of any nature with organized labor. Labor's position on the agreement

may possibly be indicated by the following: In the "*American Federationist*" of February, 1904, in an interview with Frank G. Carpenter, and in answer to the following question: "What is the present outlook as to labor, Mr. Gompers? Times have been good. There have been many strikes and wages have gone up. It is now said that times are becoming bad. Will they not go down?" Mr. Gompers replied: "I don't think wages ought to be reduced in consequence and I have advised our Unions to resist all attempts at such reduction. I advise them to strike against any cut in wages and I think the employers should see that such cuts will increase the bad times rather than lessen them."

During the Stock Yards strike, in this city, only a few months since, Cornelius P. Shea, President of the International Brotherhood of Teamsters, said,—and, though the statement was widely published, it was never disclaimed—"I do not consider anything a violation of an agreement, that is done to uphold the principles of trades-unionism."

With both sides apparently so unwilling to grant the necessary fundamentals, what can agreements offer for either the closed or open shop, depending as they must upon a fair consideration of economic conditions?

Notwithstanding our inability, at this time, to see how it is to be accomplished, or what agencies are to bring about conditions protecting the interests and happiness of all, I have an abiding faith in the patriotism, education and fairness of the American employer and employee, whether union or non-union, and in the all-powerful influence, for the right, of public opinion, and that our country was pre-ordained to successfully solve this as well as other economic problems, and it is our

highest duty, not only to assist in the efforts being made to reconcile these apparently antagonistic interests, but also to look hopefully for such a result. To quote Dr. John G. Brooks in his "Social Unrest": "To make men believe in the fatalities of this social warfare, is the deadliest work in which any human being can engage. To make men disbelieve it, by organizing agencies through which the luminous proof appears that men can do their work together, with good-will, rather than hatred in their hearts, is as noble a service as falls to us in this world."

The hope lies in the "True Open Shop." This implies an education upon many subjects, on the part of both employer and employee, which does not at this time appear. There are wrongs done and suffered by both. The employer does not himself obey the laws he would invoke, and the workman adopts, in many instances, the methods which his union was formed to combat; yet I see no final ground upon which all can peacefully stand than that conceivable in the "True Open Shop."

THE OPEN SHOP VERSUS TRADES UNIONISM

THOMAS I. KIDD

Since history first recorded the acts of man there have been two distinct classes in society; employers and employed. Between them there has been an irrepressible conflict. Ever since the institution of the wage system, the worker has continuously struggled for liberty. His instinct told him that his menial conditiou was born of injustice and his reasoning impelled him to strive for freedom at any cost. Every advance step that has been gained by labor has been stubbornly contested by capital. Slavery and serfdom gave way only after much effort on the part of the employing class to make them permanent institutions in industrialism. Slavery and serfdom were wrong and being wrong they had to yield to the enlightened views of the advanced thought of the time and the demand of labor for greater recognition.

To secure justice the workers organized, but time and again their unions were declared illegal and came under the ban of the law. The ancient workmeu, or at least those of them who were free men, persistently agitated to have these bans removed and in time succeeded. To make their success possible they organized instead of unions burial and benevolent societies, but these institutions were nothing more than trade unions in disguise, having for their objects the abolition of slavery and serfdom, and improved conditions for those who were free.

It being taken for granted that every concession secured by labor has been wrung from capital and that every step forward has been bitterly contested, is it surprising that those opposed to labor at the present

time should clamor for the so-called open shop? Charges of all kinds have been hurled at labor unions. They have been denounced as arbitrary, illegal and curtailing the freedom of the individual. In line with these charges the union is accused of ordering a limitation of output on the part of its members, instead of encouraging workingmen to give the best services of which they are capable. This is alleged to be one of the reasons why employers of labor insist upon the open shop. It would be foolish of me, as a representative of organized labor, to deny that in a few organizations rules governing the amount of labor the members shall perform exist, but it is questionable if it is fair to put the entire blame for the limitation of output on the part of the organized wage workers. Wherever it obtains, its introduction can usually be traced directly to the avaricious greed of the employer, who desiring to exact the maximum amount of labor from his workmen for the minimum amount of pay, introduced the pace maker. The pace maker was an unusually swift workman. He was paid a trifle more per diem to rush the work and induce others to follow him as closely as possible. The result of this policy was that the average workman was driven beyond the limit of human endurance. The limitation of output became therefore necessary in the estimation of those who believe in giving a fair day's work for a fair day's pay. It may be that on adopting a rule limiting the output the union went to the other extreme. Be that as it may, it is safe to assert that had there been no pace maker there would have been no limitation of output. The one is the inevitable result of the other.

Limitation on output?

Those who are opposed to the so-called closed shop, a term invented by the opponents of organized labor, and

which is rejected by unionists generally on account of the well-founded belief that the term is misleading and is meant to take the place of the more appropriate term "union shop", wilfully misrepresent the aims and aspirations of the majority of union men. Few there are who believe in limiting the output and in nearly all shops where the recognition of the union obtains the limitation of the output is practically unknown.

The term "open shop" is also misunderstood. In union circles it has existed for years and was known as a shop open to union and non-union men alike, although many of the shops were really union shops. In the government printing office in Washington, for instance, non-union men are hired, but they invariably become members of the union, yielding to the persuasions of those who hold good standing membership in the ranks of organized labor. The government realizes the right of the men to organize and the right to make government shops closed institutions if they have power enough to induce the non-union men to cast their lot with them, and it is safe to assert that were the government employees not organized their hours of labor would be longer, their wages lower and their conditions of employment less congenial than they are at the present time.

Another one of the many reasons heralded broadcast against the union shop is that when an organization has jurisdiction over a plant it limits the number of apprentices and deprives the American youth of the opportunity of learning a trade. This is true in a very few instances only. In most organizations a very reasonable proportion of apprentices to journeymen is permitted. As a matter of fact the number of apprentices allowed is so generous that some employers refuse to take advant-

age of employing the full quota of apprentices to which they are entitled on the ground that they suffer a pecuniary loss in teaching them the trade. Where the apprentice rule is stringent, however, there is usually a very good reason for its enforcement. In some industries a boy can do almost as much work as a man after serving a year or so at the trade.

Machinery has robbed many industries of the old-time skill required by the artisan. The logical outcome of a lack of an apprenticeship system would be that boys would fill our shops and factories at a much lower wage than is now received by men. The men would be walking the streets in a vain search for employment. This might result in lessening the cost of production to some degree, and to that extent the public might be benefited, but society on the whole would lose more than it would gain. Admitting that it is an important question to cheapen production wherever possible, if the cost has to be reduced at the expense of American manhood and American womanhood, it were much better that it be not reduced.

If the union shop is to be superseded by the "open shop" what will be the inevitable result? The check which the union rules have placed upon the unscrupulous employer will be swept aside. Under the union rules he has been compelled to pay equal wages with other employers, thus placing all on a fair competitive basis as far as wages are concerned.

Will the employer benefit by the open shop and a general reduction in wages, which is the real object of the open shop policy? Will he not rather suffer because of the fierce and unrestricted competition which must inevitably follow a condition where no standard of wages is set? Is it not a fact that this competition be-

comes fiercer the further down the scale we go? Is not the union shop and the minimum wage scale an actual benefit to the employer who desires to be fair by placing his unscrupulous competitor on an equal footing?

What of the union on the other hand? Will it not be driven to one strike after another, striving to again force recognition, so that instead of the open shop being an aid to industrial peace it will prove the opposite? The comparative peace which we now see between the railroad managers and the Brotherhood of Locomotive Engineers was brought about by continued striking in the early stages of the organization.

The policy being advocated by some employers in connection with the open shop campaign can never bring industrial peace. Where there are no contract relations between employer and employed it implies a condition where there is no freedom. If the employer is to be the sole judge of working conditions, his employee is a serf. Such absolute power cannot last, and this applies with equal force to the union that draws up an ultimatum which it forces the employer to sign through a threat to strike. Either condition shows an absolute power which opens the way to tyranny. Can the employer be intrusted with absolute power any more than the labor union?

The advantages which have been secured by labor unions, have not been secured without sacrifice. They do not propose to return to the old conditions without a struggle. They have paid too high a price for what they have gained to give it up willingly. In other words, they have tasted the joys of a higher standard of life, and they mean to maintain that standard in spite of the opposition of those who, by their greed and avarice would seek to debase American manhood on a plea of cheaper production.

DISCUSSION

ON PAPERS OF COMMONS, BROOKS, HIBBARD, AND KIDD ON THE OPEN OR CLOSED SHOP

EDWARD A. ROSS: I think we ought to rule out of this discussion all considerations of abstract right. On the one hand, you can say, "Of course, men have the right to sell their labor under any conditions they may attach to that sale, even if one of those conditions is that they shall not be required to work alongside of non-union men." On the other hand, you can say, "Surely a man's right to work ought not to be dependent on his membership in any organization, and certainly a non-union man ought not to be attacked over the shoulders of his employer."

We can get nowhere by arguing from these pre-conceived rights. The only way to reach trustworthy results is to consider how the thing will work out, what will be the social effects of the closed shop? So I shall address myself to this question: Should a court that has before it a trade agreement, providing for the employment of none but union men, pronounce that agreement contrary to public policy?

I conceive it to be to society's interest that the buyers and sellers of labor shall be on such footing that labor receives its true market price.

Now, I confidently venture to state that without joint bargaining, labor will be habitually underpaid, and I believe, that, in fact, most labor is underpaid in the great employing industries where labor has not yet become organized. The price of any article depends partly upon the shape of the supply and demand curves,

and partly upon the relative bargaining power of the buyers and sellers. But the working man, because he is a poor man, because he can not wait but must sell his labor to-day since the labor he does not sell to-day he can not sell to-morrow; and because it is more important to him to dispose of his labor than it is to the employer of two thousand men to secure that particular man's labor, is at a very great disadvantage as a bargainer.

When men pool their labor and offer it in large batches, many of these disadvantages are overcome. As the parties to the contract thus approach equality in bargaining power, the complexion of demand and supply begins to control the situation entirely, provided, of course, that the combination of labor does not carry with it an artificial restriction of supply. It is only with this approach to a situation in which the shape of the supply and demand curves controls the sale of labor, that the laborer begins to realize the true market price of his services.

I deny, therefore, that the price realized by unionized labor is either a fancy price based upon some Utopian conception of what labor ought to have in a just commonwealth, or a scarcity price based upon an artificial restriction of supply such as is practiced by certain trusts. It is really the true market value of what is being sold. The wage you find paid where the individual bargain prevails is, on the contrary, not the true competitive price of labor, but is a veritable underpayment of the workingman.

Now it seems to me so important that the sellers of labor should equalize themselves in bargaining power with the buyers of labor and therewith command for their labor its true market worth, that if you can show

me that the closed shop is essential to such a condition, I approve of the closed shop.

The papers read this afternoon, especially the papers of Professor Commons and Professor Brooks, seem to make it clear that in many cases and in many trades it is impossible for labor successfully to carry through the collective bargain principle without the closed shop. If such is the case, what hollow mockery it is for us to approve the purpose of labor organizations and yet deny them the use of the only legitimate means by which they can fulfill that purpose!

Because the world echoes with the steady march of combining capital, the employers never think of trying to make a point against the organization of labor. They know it would be idle to do so. But because the means whereby associated labor attains its purposes are different from those whereby associated capital attains *its* purposes, they find it good tactics to center their attack upon the peculiar means the labor unions employ. But it seems to me that if these means are not illegitimate, and if it can be shown they are necessary for bringing about equalization of bargaining power as realized on the joint bargain, they ought to be countenanced.

Our professional brethren, the economists of England, from 1820 to 1870 made many mistakes which injured the cause of workingmen. With their wage-fund doctrine, their narrow application of the Malthusian theory and their denunciation of the trade unions, they unwittingly and innocently wrought labor much harm. Let us see to it then, that at this crisis in the movement for collective bargaining we too, do not make a mistake for which we shall later have to heap the ashes of humiliation upon our heads.

TOWNER K. WEBSTER: Robert Louis Stevenson has said that "Education is two fold, to know and to utter." The business man who undertakes to arrange his thoughts and to make public utterance of them finds himself greatly handicapped, because it may be his business to know but it is not his business to utter, and therefore it may be that we who are manufacturers may know a great deal about the industrial condition and yet find it very diflcult to present our thoughts in proper shape.

With this apology for the blundering way in which I may state my thoughts, I will say that I think, that, under proper regulations, the closed shop, or in more proper terms, the contract shop is not against the interests of the manufacturers. To ask the union man to come together with the employer on the open shop is like asking a man to attend his own funeral, which I do not think he would enjoy.

My first reason for standing for the contract shop is that I think the union stands as a great middle wall between the small manufacturer and the great overwhelming power of organized capital. When I see these great combinations with their tremendous power of organized wealth and note how rapidly they can work, how they are able to overcome all opposition to their will, whether their will be for purely selfish purposes or not, when one can not help noting the great power they have in influencing legislation, I ask myself what is going to oppose them if we have no great organized union to stand as a middle man between us. If the union accomplishes nothing else but to stand up and say, Now, we are going to oppose this thing because it is against the common good, I say if organized labor in the form of the uuion only accomplishes this, it has

accomplished something for the good of the whole country.

My second thought is that a union of some kind is sure to be a factor and therefore I say let us do all in our power to have a good union. I know some people say that there cannot be a good union, but I believe there can be. Because the government of Chicago at times had been very bad, shall we say that we will have no government.

I am willing to concede that the unions in Chicago have done a lot of bad things and deserve the bad name that has become fastened to them, but you must remember that most of the unions that have this bad name are unions where the employers only employ men occasionally. If an employer has a deal with a union for five, ten or twenty years he can get some hold on the men, but when the employer uses men today and tomorrow it rains and they have to go and get another job, there is no opportunity to get hold of the men and there is practically no relation between the employer and employe. One must remember that these fellows who are floating round picking up jobs here and there, have a pretty hard time of it, and one must not expect them to be of a very high order of intelligence.

I do think, however, that it is possible for the regular trades to have good unions and the only way to do it is to join together, the employers standing for the good there is in the union, and against the bad that is in the union. For instance, it is to the interest of the union as well as of the manufacturer that the limitation of output should be opposed and defeated wherever it appears and if it be necessary to have a strike on a question of fundamental importance, as the limitation of output, one must be willing to put his hand in his

pocket and lose thousands of dollars rather than give in to a demand of this character, which not only will greatly injure the employer, but will also have a reflex action on the union, making the workman practically a thief against his employer.

This does not mean, however, that it is right for an employer to have a pace maker and insist on the days work being more than any ordinary or average man can do.

The union gives this great advantage that through his organization the employer, or body of manufacturers, has something to work on. You can influence the body of men through their union as you cannot do in any other way. I have had, personally, some very pleasant conferences with the heads of unions, and some rather unpleasant ones, but one must remember that you cannot influence the laborer except through an organization, so I say if the open shop would, as I fear it would, disintegrate the union and break it up, I am against the open shop.

My third thought is that we cannot have a good union unless it is a strong union; strong enough to carry out its contracts and to discipline its members. One of the greatest difficulties with the unions has been that they have entered into contracts and have not been strong enough to carry them out. Neither have they been able to discipline the members who have failed individually to obey the instructions of the union. If an employer enters into a contract with an individual, a corporation or a union, he must know that this contract will be carried out, and until the union becomes strong enough to enter into a contract and deliver the goods as agreed, troubles on both sides are bound to multiply. But if along conservative lines, the manufacturers can

lend their influence to build up a strong union that can make a contract and live up to it, it will certainly be to the benefit of the whole industrial condition.

My fourth thought is that the union is a good thing for the employer because it puts all the manufacturers on the same basis as regards wages. This, of course, is a very important thing to the manufacturer for each one knows that the other is paying the same prices and each knows that wages will be the same for a given time, which is not only a good thing for the men but a good thing for the manufacturer, because he knows exactly what he can depend upon both as regards his competitor and as regards the market for a given time.

In the fifth place, it seems to me that every fair-minded man must acknowledge that there is no hope for the working man except in his union. Put yourselves in the workingman's place in the factories as they are now. It is not as it was twenty-five years ago. Twenty-five years ago the manufacturer employed say six or eight men and often worked with them. To-day he employes 600 or 800 men and does not know anything about them. In the company of which I am president, I can well remember the men I employed and worked with twenty years ago, but the man I employed last year I know nothing about. Under these conditions we cannot live close to the man who is working, and unless he is joined in some kind of an organization, he is sure to be cut down in wages and hours, dependent as he is on the selfishness and greed of the man that he works for, who, unless he is restrained, will certainly only pay what he feels compelled to pay. I must confess that while I am interested in wages and profits, I am tied up to my fellows. I think it is a great deal better to have 1000 men happy than to have one man

happy. It is a great deal better for the American people, who are growing rich faster than any other nation in the world, to have these riches distributed a little better. I have no doubt that Carnegie is doing a great deal of good by putting in his libraries, but I never can fail to believe that if a part of that $300,000,000 had been distributed among 10,000 workmen, it would have made 50,000 people happier, and that from these 50,000 people would have come several men just as great as Carnegie if they had had the same chance. I have never seen in my experience the man I would trust with a big payroll and say, now if you can cut this down 10% and get $500 a week out of it, but that he would do it. There have been a great many good men in the world but I do not believe there has ever a man trod this earth, excepting Jesus Christ, whom one could safely trust with the wages of the workingmen under these conditions. When we consider what corporate greed is and what it would do if it had the chance, I say let us have unions as a restraining influence. I am afraid of what some manufacturers mean when they talk about the open shop. One must remember that unless the union can offer something to a man he will not go into a union. Unless the union can offer to the worker better wages and shorter hours, and to some extent carry out its promises the union will fail. Therefore, I am afraid, if many of the ideas adopted by some of the manufacturers were carried out it would simply mean the death knell of the union.

Now, in the last place let me say that it seems to me that good government is dependent on a working population making a fair wage. Did you ever consider that out of the two million people in Chicago, 600,000 of them are workers, men working with their hands, and

that this 600,000 represents at least another 600,000 who are dependent on them for the bread that they eat. Many people say that if you have good citizens you have good government, but I am inclined to put it the other way, namely, that bad government will always make bad citizens. With 200,000 voters among this 600,000 laborers did you ever think what the result would be of putting these workers down to $6.00 and $8.00 per week; what they would mean to our government? Why, it would not be a year before the great labor vote would be exploited and the independent vote would be entirely eliminated and we would find ourselves back where we were ten or fifteen years ago, where if we wanted anything done or any laws passed, we had to go in and put up the price.

In conclusion, I simply want to say that in order for the employer and the union to come together, as they must come together, the union must, first, grant a fair day's work for a fair day's pay. No reduction of output can be allowed. This is the corner stone of the edifice. Second, a man must control his own property and be supreme in the conduct of the business. Third, if the union will grant the two demands named above, I believe that wages will take care of themselves. We had a variation in the price of pig iron in the years 1901 and 1902, from $13.60 to $28.50 per ton, yet no one was hurt particularly, whereas in the six years from 1897 to 1903, the average advance in wages was only 10%, so I think I am justified in saying that wages will take care of themselves.

Lastly, I will say that we are bound together, the workmen and the employer and let no man put us asunder, but let us all work to the end that prosperity and happiness may be attained by all.

GEO. E. BARNETT: In the papers read, two different lines of discussion have been followed. Prof. Commons and Mr. Brooks devoted their attention to a consideration of the closed shop as a part of trade union policy, while to Mr. Hibbard and Mr. Kidd, the question at issue is not the closed shop as such but the conditions prevalent in such shops.

The opposition to the closed shop, as thus indicated, is made up of two groups. One class is opposed to the principle of uniformity. To them the closed shop is undesirable because it is a powerful mechanism in securing uniformity. Another class, probably the larger, is not antagonistic to the closed shop as a part of the union's mechanism in maintaining collective bargaining but to certain rules enforced by this mechanism. In many trades, the unions, unable to secure the closed shop throughout the industry, permit their members to work iu open shops, requiring only that they do not violate the unions standards of wages and hours, while in the closed shops in the same trade the uuion enforces in addition regulations, commonly known as shop rules or practices, concerning the number of apprentices, shop management and other details. Since these rules are not enforced in open shops, the closed shop has become the centre of an attack, primarily directed against the shop rules of the unions.

The present widespread dissatisfaction with union shop rules, reflected in the demand for the open shop is largely the result of the method by which shop rules are framed. At a very early time local unions and later national unions found it expedient to submit proposed changes in wages and hours to the consideration of employers. The formulation of shop rules has, on

the contrary, been quite commonly regarded as a prerogative belonging only to the union.

The explanation of the distinction thus made between shop rules and other parts of the labor contract is to be sought in the historical development of the practice of conciliation. Before conciliation can be highly developed in any trade, co-extensive and effectively organized associations of employers and of employees must be formed. The organization of employers has followed at a distance the organization of their employees. When the supreme authority in the trade union world was the local union, the employers had no organizations. By the time the employers had developed effective local associations, the centralization of trade-unions in national governments was far advanced. This inequality in development has been at times a serious obstacle to conciliation. Especially is this true in the case under consideration. Shop rules have passed under the control of national unions more fully than questions of wages and hours. When the national union began the formulation of shop rules, there were no employers' associations of national scope. Conciliation was consequently impossible, and the rules were framed solely by the union.

A long experience in the formulation of shop rules by legislative fiat has bred among many trade unionists the feeling that these rules are something different in character from wages and hours, and concern the unionist so nearly that he cannot submit them to conciliation or arbitration. Illustrative of this feeling, was the response of a great American trade union to a demand for the arbitration of certain of its shop rules: "The constitution and by-laws of this union like those of the United States government, represent what the members of this union believe to be principles that

cannot be arbitrated and their arbitration was never contemplated. They are necessary to the life of the organization and must be maintained." According to the constitutions of many unions, shop rules are enacted in the same way as laws relating to the internal affairs of the union. Naturally, the union will not in a day alter the habits of years. The reconstruction of the organic law in such a way that shop rules may be put on the same plane as questions of wages will require time.

Some of these rules may be indispensable to the maintenance of collective bargaining but ultimately the unions must recognize that the greater part of their shop rules are as much elements in the wage contract as the rate of wages or the length of the working day. The theory that the union has the sole right of determining such rules cannot stand the test of the unionist's own logic, and the conservative men in every trade will throw the weight of their influence against such a principle.

Shop practices in a few trades are now regulated by joint boards of conciliation. The highly successful agreements concluded by conciliation between the iron molders and the stove manufacturers cover shop rules. A recent agreement between the pressmen and the Typothetæ provides for the settlement of shop practices by a joint conference committee. In these trades, the employers have declared their adhesion to the principle of uniformity and the employees have submitted shop practice to conciliation. In neither of them, is the open shop an issue. In other trades, it is a well established principle that contracts with employers are not affected by shop rules enacted subsequently to the mak-

ing of the contracts. The wide use of the system of formal contracts in such trades will undoubtedly have a powerful influence in extending the view that shop rules may properly be subjects for conciliation.

The one-sided formulation of shop rules leads necessarily to the enactment of unreasonable and arbitrary rules even in cases where it is the purpose of the union to remedy undoubted evils. Unjustifiable rules frequently prevent the unionizing of establishments since many employers who do not oppose the principle of uniformity are strongly averse to conducting their establishments according to regulations, in the framing of which they have no voice. So far from strengthening the union in its larger purposes, this method of forming shop rules limits the area over which the union can establish uniform pay and hours. The recognition of this fact will strengthen the hands of those who advocate the extension of conciliation to cover such rules.

On the other hand, those employers who do not object to unionism but to the union's rules must recognize the conditions necessary for the introduction of conciliation with reference to shop practices. Foremost among these conditions is the organization of employers' associations capable of bargaining with the unions. In the meantime, unnecessary friction will be avoided if employers take care to understand the limitations within which the unions work. It is useless, for example, for a local employers' association to demand that a local union arbitrate a national shop rule.

There are then two roads, by which it is possible to get rid of objectionable shop rules; the one by securing the open shop with such rules as the employer sees fit

to enforce; the other by extending the method of conciliation to cover shop rules. The latter appears to be in line with historical evolution; the former is along lines which have heretofore led only to temporary adjustment. If the closed shop is broken up in certain trades, with it will go those uniformities in pay and hours which it has been a chief mechanism in enforcing. If, on the other hand, shop rules can be settled by conciliation, the chief abuse of the closed shop disappears and the question becomes unimportant.

H. R. SEAGER: The most striking fact revealed by this discussion is the wide diversity of views entertained by the speakers. This indicates that the closed shop suggests very different pictures to different minds, and this can only be because in practice it means very different things in different trades. In some it has meant a close monopoly for the closed union which has succeeded in securing it. It has led to intolerable trade union dictation and to a reaction in which employers band together, as they have been doing all over the United States during the last three years, to insist on the open shop. In others it has meant merely the definite acceptance of the system of collective bargaining. Employers have come to the conclusion that it is to their best interest to recognize the union and to make the union responsible for strict compliance with the conditions of the collective bargain by employing only union men. On their side the unions have felt justified in insisting that every competent man in the trade should belong to the union so that the trouble and expense incurred for the common benefit might be shared by all alike. When a term calls up such different pictures in different minds, the way is open for all possible degrees of misunderstanding.

The "open shop" is just now a convenient rallying cry for drawing together intelligent and fair-minded employers, unreasonable employers of the "smash-the-union" type, and certain observers representing the general public. When the smoke of battle has cleared away I think we may confidently expect at least one important result. The union shop has assumed its worst form when there was no employers' organization to oppose arbitrary trade union demands and when the policy of the union has been to limit its membership through unreasonable apprenticeship rules, or initiation fees, or by means of unfairly conducted examinations to test the fitness of a man to carry on the trade. The open shop crusade has brought into being employers' organizations from one end of the country to the other; consequently there is little reason to anticipate a return to the worst forms of union dictation from which some trades have suffered in recent years.

On the other hand, the conviction is growing that combinations of workmen like combinations of capitalists need to be controlled if the public interest is not to suffer. Labor organizations are admirable; labor monopolies are pernicious. To foster the one and to oppose the other the law must intervene to insist that the rules and policies of organizations shall not limit membership in an unreasonable way. It is not the closed shop so much as the closed union that has justified the open shop crusade. The open shop is, to be sure, one means for opposing the closed union, but its introduction in certain trades means retrogression rather than progress. In such trades a better plan would be to attack the closed union directly through the method of legal regulation of union rules, while accepting the

union shop as a convenient device for securing compliance with the provisions of a collective bargain and enforcing discipline within a shop through a system of self-government on the part of the workmen rather than through the interference of foremen and bosses representing the employer. A union shop in a trade in which membership in the union is freely open to all competent men is neither monopolistic nor un-American. On the contrary, it is a long step towards both industrial liberty and industrial peace.

THE ECONOMIC POSITION OF THE AMERICAN NEGRO

The Special Committee of this Association on the Economic Position of the Negro begs leave to submit the following report as a report of progress:

The committee was constituted in the hope that its members, two of whom were then connected with the Census Bureau, might aid in the presentation or interpretation of the important statistical results of the Twelfth Census bearing upon the economic position of the negro. These results have all been published, the last volume and one of the most important, that on Occupations, having appeared during the year 1904. The Census Bureau has also brought together substantially all its information upon the negro in the United States in a bulletin of more than 300 pages, about one-third of it being explanatory or interpretative text. As three of the five members of your committee assisted in the preparation of that bulletin and as a copy of it has been mailed by the Census Bureau to each member of the Council of this Association, it will be treated as a part of our report.

The economic position of the negro is indicated by the occupations followed as a means of obtaining a livelihood, and in obtaining a livelihood the family is a more significant unit than the individual. For this reason an effort has been made by your committee to estimate the approximate number of families mainly supported by each important occupation. In doing so they have hazarded the following assumptions:

1. That the income of a negro family is earned

mainly by the male member or members at least 16 years of age, and that the earnings of children under 16 years of age of either sex and of women are only supplementary. This assumption is admitted to be subject to a wide margin of error. In many negro families in which one or more female members are engaged in laundry work or go out to service but sleep at home and in which the adult male members work at agriculture or at unskilled and irregular labor, the women earn the main income. In many others the men have died or deserted and the women are the only breadwinners. But if there is any man in the family, some occupation, even though it be in reality a nominal one, is usually reported for him. Notwithstanding these sources of error, the assumption must be nearer the truth than its converse and one of the two must be made if any such estimate as we have attempted is to be ventured. The effect of this error upon the following figures would be to make the estimated numbers too large for families supported by agriculture and by various sorts of unskilled labor of men, and too small for families supported by laundry work and domestic service.

2. That all male negro servants (excluding waiters) live in the families of their employers, or if living in their own families were the subsidiary rather than the main support of the family.

3. That all negro males under 16 years of age reporting gainful occupations are members of negro families deriving their main income from some other source than these children.

4. That the 686,000 male farmers, planters and overseers include all the males at least 16 years of age working in the 758,000 negro farm families, the difference in these two numbers being substantially equal to

the number of negro women reported as operating farms.

5. That the 1,586,000 males engaged in gainful occupations, exclusive of children under 16 years of age and servants, because these classes were returned probably in the families of their parents or employers, and exclusive also of the male negroes operating farms, were evenly distributed among the 1,075,000 negro families other than farm families, giving about 15 male negro bread-winners at least 16 years of age to each 10 families.

6. That of the 464,000 male negroes returned as "laborers" without further indication of their occupation, all who lived in the rural districts or outside of places having at least 2,500 inhabitants (a number estimated at 250,000) were agricultural laborers, and should be transferred from the class of domestic and personal service to that of agricultural pursuits.

By the aid of assumptions, of which the preceding are the most important, the approximate number of negro families supported mainly by each great class of occupations and by each of the leading specific occupations has been estimated as follows:

ESTIMATED NUMBER OF NEGRO FAMILIES SUPPORTED MAINLY BY SPECIFIED CLASS OR SUB-CLASS OF OCCUPATIONS, AND PER CENT. DISTRIBUTION, FOR CONTINENTAL UNITED STATES: 1900.

Class or sub-class of occupations.	*Estimated number of negro families supported mainly by class or sub-class of occupations: 1900.*	*Per cent. distribution: 1900.*
Total	1,833,759	100.0
Agricultural pursuits	1,334,159	72.8
Operating a farm	758,463	41.4
Agricultural laborers	549,303	30.0
Other agricultural pursuits	26,393	1.4
Domestic and personal service (exclusive of servants)	185,993	10.1
Manufacturing and mechanical pursuits	158,742	8.6
Trade and transportation	133,507	7.3
Professional service	21,358	1.2

ESTIMATED NUMBER OF NEGRO FAMILIES SUPPORTED MAINLY BY SPECIFIED OCCUPATIONS, FOR CONTINENTAL UNITED STATES: 1900.

Occupation.	*Estimated number of negro families supported mainly by specified occupations: 1900.*
Draymen, hackmen, teamsters, etc	44,328
Steam railroad employees	37,034
Miners and quarrymen	23,792
Saw and planing mill employees	21,706
Porters and helpers (in stores, etc.)	18,467
Waiters	17,085
Carpenters and joiners	14,203
Barbers and hairdressers	12,740
Clergymen	10,417

To illustrate how these figures were obtained, there were 15,364 male negro clergymen reported. The table shows that this occupation is estimated to have furnished the main income for 10,417 families. The difference is due to the fact that, after excluding on one side the farm families and on the other the male farmers and the servants, there are only two-thirds as many negro families to be supported as there are negro males at least 16 years of age in all occupations. If the estimate for clergymen is approximately correct, it would mean that in one-third of the cases the occupation was a subsidiary one to the individual, his main income coming from some other source, or a principal one to the individual but a subsidiary one to the family, its main income coming from some other members. In certain occupations, like that of clergyman, the assumption must be far from the truth, but the series of numbers obtained by its aid is believed to furnish a better clue than any others to the main sources of a livelihood on which negro families now depend and to their relative importance. Thus the census figures show that 54 per cent. of all negro workers and 58 per cent. of the male negro workers are engaged in agri-

cultural pursuits. These figures show that probably 73 per cent. of the negro families are supported mainly by agriculture. For reasons already given we believe that this is an outside estimate but much nearer the facts than the per cent. derived from the unadjusted figures of the census.

It is the opinion of your committee that the census farm returns furnish a better basis for estimating the total accumulated wealth possessed by the negroes in 1900 than is found in the only other source that has been used, namely, the assessor's returns for a few Southern States. The Census Bureau's estimate is $200,000,000 for the value (1) of the farms, live-stock and implements on the farms owned and operated by negroes, and (2) of the live-stock on the farms rented by negroes. This should be increased by (3) the farm property owned by negroes and rented by them either to negroes or to whites, and also by (4) the farm property other than live-stock owned by negro farm tenants. It should be decreased by (1) the various unknown liabilities against this property in the hands of whites and by (2) the value of the live-stock of negro tenants which is owned by white landlords. It is the belief of your committee that the subtractions would at least equal the additions and that $200,000,000 may be deemed an outside estimate of the net value of the accumulated property owned by negro farmers. Indeed it seems to us probable that this estimate would be large enough to include also the wealth owned by the 550,000 families of agricultural laborers. In other words, we believe that the total property held by these families is not greater than the legal claims held by whites against negro farm property plus the proportion of the $50,000,000 worth of live-stock on the farms of negro tenants

which is owned by whites, of neither of which is any account taken in the estimate of the Census Bureau.

If this be granted, then the further assumption may be ventured that the other 500,000 negro families in the United States are no better off on the average in the matter of accumulated wealth than are the 1⅓ million families occupied in agricultural pursuits. On that assumption the total accumulated wealth of negro families in 1900 was in the neighborhood of $275,000,000.

An inquiry into the value of the property held by negro churches in 1890 gave as a result $26,600,000. As the negro population of the United States increased between 1890 and 1900 by 18 per cent. and the number of negro churches only about two-thirds as fast, the value of property held by negro churches can hardly be supposed to have increased during the decade by more than 20 per cent. In that case the value of such property in 1900 was approximately $32,000,000. The legal claims against it owned by whites cannot be estimated. Nor does your committee see any way in which the amount of property, other than family or church property, held by negroes can be approximated.

The evidence in hand leads your committee to the conclusion that the accumulated wealth of the negro race in the United States in 1900 was approximately $300,000,000 and probably neither less than $250,000,000 nor more than $350,000,000.

WALTER F. WILLCOX,
W. E. B. DU BOIS,
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